EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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MIDDLE EAST
Defence spending is scaled down
Page 19

World News

General links Gandhi to Bofors cover-up

A senior Indian general provided evidence suggesting Prime Minister Rajiv Gandhi was directly involved in a cover-up of the Bofors affair in which the Swedish arms group is alleged to have paid illicit commissions. Page 4

Soviet action urged
Politburo conservative Yegor Ligachev urged political action to stop nationalist unrest in outlying Soviet republics but said the Government must not be repressive or dictatorial. Page 3

US, Japan in talks
Japanese and US government officials today begin the first round of trade talks which are likely to touch on basic differences in how both economies work. Page 4

Iran appoints radical
Iranian President Rafsanjani appointed former Prime Minister Mir-Hussein Mousavi as his adviser in a concession to radicals within the leadership. Page 2

Soviet Jews in US
Bush Administration has drafted plans to impose curbs on the admission of Soviet Jews because it fears a wave of migration following Moscow's easing of exit restrictions. Page 2

Peru snubs Panama
Peru will not recognise Panama's new government because it has been "hand-picked...by a military dictator," President Alan Garcia said.

Vietnamese reforms
Nguyen van Linh, the Vietnamese leader, rejected any multi-party system and said liberalisation would only occur in economic life. Page 4

Egypt jails Moslems
Egyptian court sentenced 26 Moslem militants to long periods in jail in a continuing crackdown on dissidents of both the left and the religious right. Page 4

Royal Naval arrest
British navel vessels helped arrest a US registered fishing vessel carrying 12 tons of marijuana off Florida after shadowing it for three days.

Nicaraguan polls
Publisher of the opposition La Prensa newspaper and founder member of the Sandinista Government was nominated to represent Nicaragua's main opposition group in presidential polls. Page 2

Newspaper bombed
A powerful bomb killed one person and caused extensive damage at a leading Colombian newspaper which is crusading against the drug trade.

Castro stays away
President Fidel Castro will not attend this week's non-aligned summit in Belgrade, the first time he has been absent since he helped launch the movement in Havana 28 years ago.

North Sea rig scare
Ships and helicopters evacuated 110 workers from an Amoco oil platform in the North Sea when vibrations caused by drilling into a high pressure gas pocket led to a production shut-down.

Libyan sanctions
Italian Foreign Minister, Gianni De Michelis, said he was convinced Libya wants friendly relations with the West and that the EC should rethink diplomatic sanctions it imposed in 1986.

Afghan exodus
About 40,000 people have been leaving the Afghan capital Kabul every month for Pakistan or other countries to avoid conscription and rebel attacks, diplomats and international relief workers said.

Panda cub dies
A three ounce panda cub born on Friday at Washington National Zoo died of an infection despite paediatric help from a children's hospital.

Business Summary

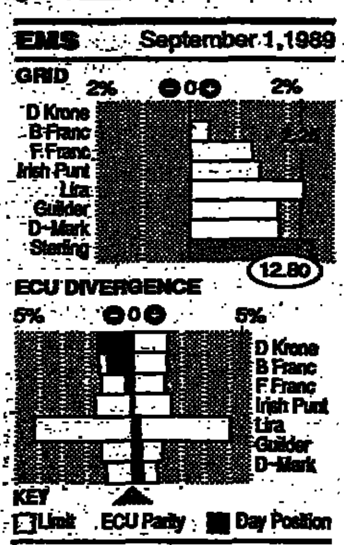
UK calls for inquiry into shipping line rate fixing

THE EUROPEAN Commission has been asked to investigate the legality of a rate-fixing agreement between a group of leading shipping lines on some north Atlantic routes.

The British Shippers' Council, which filed the complaint, says the North Europe/USA Rate Agreement (Neusara) breaks at least two EC competition regulations. Page 20

EUROPEAN Monetary System: The Spanish peseta remained very firm last week, moving close to its maximum cross-rate limit against the Danish krone, the weakest member of the system. Trading is likely to become more volatile after news that the Spanish authorities have called a general election.

The Italian lira was also strong despite occasional intervention by the Bank of Italy. Elsewhere, the Danish krone lost ground and finished the week just within its Ecu divergence limit.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira and Spanish peseta) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies. The peseta and the escudo are not included as they have no weighting until September 20.

ITALY'S Banca Nazionale del Lavoro chairman, Nerio Nesi, will meet government ministers to discuss the widening scandal over more than $1.5bn of unauthorised loans dispensed by the bank's Atlanta, Georgia, branch to US and European companies exporting to Iraq. Page 3

TAIYO Kobe bank President Yasuo Matsushita denied insider trading took place before the announcement last week of the proposed merger with Mitsui Bank. Page 23

LOMAS FINANCIAL, Texas financial services company struggling with large losses and a heavy debt burden, hinted it would consider bankruptcy if its bankers do not make concessions on their loans. Page 23

CHILE reached agreement for a $95m one-year stand-by agreement with the IMF that could lead to a Brady-style programme of debt reduction. Page 2

WESTFIELD, Australian group owned by Frank Lowy, sold out of the Channel Ten network, becoming the first casualty in the competitive commercial TV industry since its media regulations changed in 1986. Page 23

BILLITON International Metals, Royal Dutch/Shell division building worldwide mining operations, is buying a 35 per cent interest in Les Mines Selbaie, a copper, zinc and precious metals complex in north-western Quebec, Canada. Page 23

FALCONBRIDGE: the withdrawal by US-based Amax from the bidding for Canada's Falconbridge apparently leaves the way clear for the diversified mining company to be taken over by Noranda in partnership with Trelleborg of Sweden. Page 23

MEDIOBANCA, Italy's largest Merchant bank, posted a 35 per cent increase in net profit to L162.4bn ($115m) in the year ended June 30. Page 23

ALIANCA, Portugal's state-owned insurance company, will sell 49 per cent of its capital at a basic Es3,000 ($18.50) per share in the third privatisation this year. Page 23

BA wins buy-out pledge from United Airlines pilots

By Clay Harris in London and Roderick Oram in New York

BRITISH AIRWAYS has received a binding commitment from the pilots of United Airlines to remain loyal to the employee-management consortium which is bidding $6.8bn for the second largest US carrier.

BA would take a 15 per cent stake in United if the leveraged takeover offer is accepted by the non-executive directors of UAL, United's holding company. UAL faces a rival $6.4bn bid from Mr Marvin Davis, a Los Angeles investor.

If the consortium bid succeeds, United will become the largest US company ever to be controlled by its employees. United staff would own 75 per cent of the airline through an employee share ownership plan (Esop), a tax-efficient system encouraged by the US Government.

United executives, led by chairman Mr Stephen Wolf, would hold the remaining 10 per cent.

BA's involvement in the bid will face close scrutiny from United's competitors and the US Government, even though the proposed 15 per cent stake is well below the 25 per cent maximum holding a foreign entity can own in a US carrier. The two airlines already have close marketing links.

WORLD'S LEADING AIRLINES
Passenger kilometres*

1988	Bn
Aeroflot	213.2
United	111.1
American	104.2
Delta	83.1
Continental	65.1
Northwest	64.6
British Airways	56.9
TWA	56.3
JAL	49.3
Eastern	46.3
Pan Am	46.0
Air France	34.3
Lufthansa	34.0
Qantas	28.0

*Fare-paid flights on scheduled services. Source: IATA world transport statistics; US Department of Transport

The written commitment received from United's pilots ties them firmly to BA.

Mr Piers de Montfort of Morgan Stanley, the US investment bank which advised BA, said yesterday: "They will not do a deal with any third party."

The pilots' loyalty is crucial to the consortium's hopes for success. As part of the deal, the pilots and United's non-union staff have agreed to sweeping changes in work practices which will save more than $200m a year.

These savings will be applied directly to finance the $3bn debt incurred by the Esop to buy its 75 per cent stake. Most Esops are funded by payroll deductions.

The Esop is central to the financing of the bid. Lending to Esops attracts tax breaks for banks, which can offer lower rates as a result, and for the company itself, which can offset interest and principal payments against income.

The prospect of employee ownership is also likely to distract attention from the potentially contentious issue of BA's stake. BA pointed out at the weekend, however, that as much as 19 per cent of its own shares are now held in the US.

Mr Davis's hopes of thwarting the consortium rest with wooing the two unions – the machinists (ground engineers) and the cabin staff - which have not yet joined the bid. United's 25,000 machinists are particularly antagonistic towards the pilots and towards the idea of buy-outs.

Nevertheless, Mr Davis is at a severe disadvantage. He has the money to raise his offer from $275 a share to top the consortium's $300 offer and might get the machinists and another non-US airline to join

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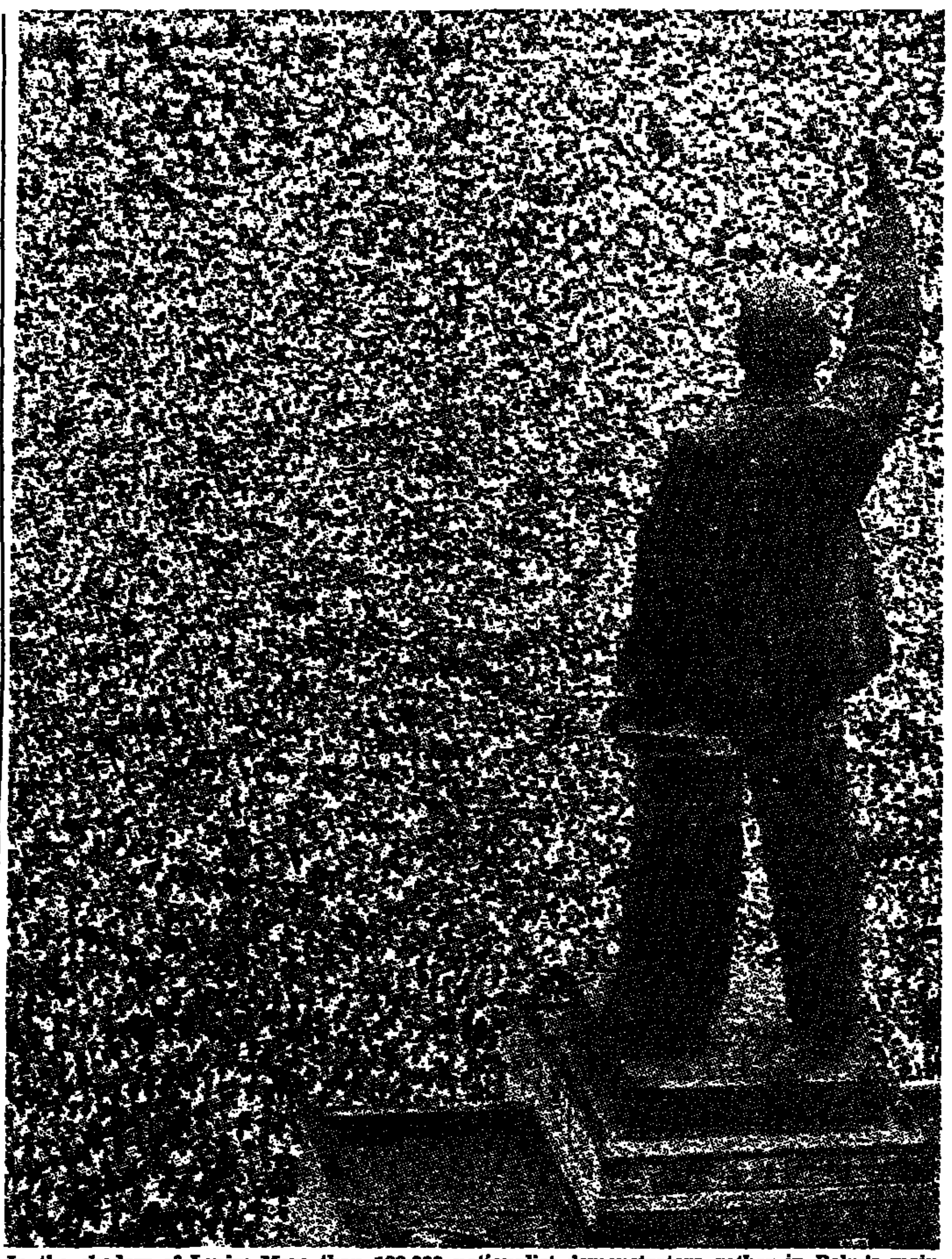
A global future, Page 18; Lex, Page 20



In the shadow of Lenin: More than 100,000 nationalist demonstrators gather in Baku's main square, Azerbaijan, to demand more autonomy from Moscow. Report, Page 3

Talking business with Toyota

By Richard Tomkins in London

THE DECISION by Toyota, Japan's biggest car company, to build its £700m ($1.1bn) European assembly plant in Derbyshire, central England, will have unexpected consequences for the region's schoolchildren.

From a date to be fixed, the county council, which doubles as the local education authority, is to introduce Japanese studies as a compulsory part of the curriculum in all of Derbyshire's secondary schools.

The lessons will include instruction in the Japanese language and an introduction to the country's modern history, with emphasis on the reasons for its post-war rise as an economic power.

Pupils will also learn about Japan's different culture and values, with teachers unravelling the mysteries of the tea ceremony, sumo wrestling and why, for the Japanese, it is so rude to blow one's nose in public.

Mr David Bookbinder, Labour leader of Derbyshire County Council, says the decision has been taken not simply because Toyota is moving to the area but because of the other Japanese employers which are expected to follow suit.

He believes at least 20 Japanese suppliers will move to Derbyshire on the back of Toyota's investment, establishing the county as an important location for Japanese industry in Europe and prompting other Japanese companies to move in.

"There is going to be a massive influx of Japanese business into Derbyshire and it will have a considerable impact on this part of the world," Mr Bookbinder said.

"It seems sensible that, if we are going to be living and working with Japanese people, we ought to be getting to know about their country and culture."

Sensitive to suggestions that the move might be seen as kowtowing to the Japanese, Mr Bookbinder said the Japanese would clearly be taking trouble to learn about western culture. "It will be very much a two-way process," he said.

The Toyota plant, to be sited near the village of Burnaston, is expected to begin production in 1991 and build up to a workforce of 3,000 over the next two years.

The investment is expected to create another 3,000 jobs among component suppliers.

Pretoria may try to reschedule

By Patti Waldmeir in Johannesburg

SOUTH AFRICA might propose a unilateral rescheduling of its debts if creditor banks refuse to sign a new refinancing agreement when the current one expires in June next year.

Pretoria's foreign creditor banks are under increasing pressure from anti-apartheid campaigners to refuse to reschedule $8bn of debt covered by the partial moratorium imposed by South Africa in August 1985.

Mr Chris Stals, the new Governor of South Africa's Reserve Bank, the country's central bank, told the Financial Times that Pretoria "could take a unilateral decision on the matter and say the banks should accept it."

He implied that Pretoria was unlikely to default, but would seek to continue repaying its debts whether or not the schedule of repayment was agreed with its creditors.

But he stressed that he believed agreement could still be reached before next year's deadline, arguing that the rescheduling was a technical and not a political matter and he hoped it would be treated as such by the banks.

Bankers say some US banks have already reacted to public pressure from the anti-apartheid lobby by converting debt covered by the standstill to medium-term credits which allow a five year grace period on capital repayments. South Africa included such an "exit clause" as a voluntary option in the two rescheduling agreements signed to date.

More may do so as they come under increasing pressure not to reschedule South Africa's debts, or to exact political concessions from Pretoria in exchange for a refinancing. South African pro-sanctions campaigners, such as Archbishop Desmond Tutu, have made clear they are focusing on financial sanctions. A recent conference of Commonwealth

Continued on Page 20

No quick fix for economy; Blacks defy ban, Page 4

GrandMet to sell Mecca and William Hill betting shops

By Vanessa Houlder in London

GRAND METROPOLITAN, the UK drinks and retailing group, is selling its Mecca and William Hill betting shops in a deal expected to raise at least £600m ($934m). The group acquired William Hill only nine months ago.

Brent Walker, the drinks, leisure and property company, is seen as the most likely buyer of the shops, which form the UK's second largest bookmaking chain. With more than 1,500 outlets, the group has about 15 per cent of the UK off-track betting market, falling closely behind Ladbroke, the market leader.

Discussions are also taking place with other contenders which are thought to include Mr Bob Green, the former head of Mecca Bookmakers.

Mr Allen Sheppard, chairman of GrandMet, said that no agreement had been reached but a further statement was expected later this week.

GrandMet's decision to sell its bookmaking interests stemmed from a strategy review in which it resolved to concentrate on its food, drink and eyecare businesses.

GrandMet claims to be the second largest group in the world in terms of the number of retail outlets it operates following recent acquisitions, such as Burger King, Wienerwald and Wimpy.

The funds raised by the sale will be used to strengthen GrandMet's balance sheet, which is thought to show borrowings of about £3.5bn. Its debts stem principally from its $5.75bn acquisition in January of Pillsbury, the Burger King group. The company has since raised $1bn from the disposal of Pillsbury subsidiaries and London Clubs, its UK casino interests.

GrandMet acquired William Hill from Sears, the retailing group, for £331m. Mr Sheppard justified the apparent shift in strategy by saying the William Hill acquisition had given GrandMet the opportunity to add substantial value to its betting business.

"The integration of the William Hill organisation and the Mecca bookmakers is a genuine case of one and one making three and was essential to obtain critical mass in a highly competitive market," he said.

In addition to the betting shop outlets in the UK, GrandMet is expected to do a separate deal concerning its overseas outlets which make up the remaining 5 per cent of the chain.

Before the sale is completed, GrandMet will be obliged to comply with the findings of the Monopolies and Mergers Commission, which last month ruled that GrandMet should dispose of about 25 shops mainly in south-east England.

If Brent Walker buys the shops, the deal would more than double its size and mark a massive expansion into bookmaking. The company's first move into the betting business was made in January when it bought 119 betting shops in London and the south-east from GrandMet.

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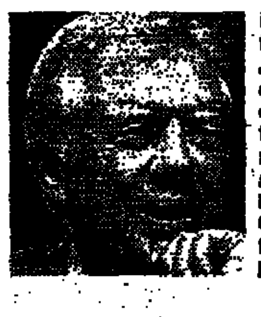
THE MONDAY INTERVIEW



In a quiet diplomacy, former US President Jimmy Carter has observed Panama's elections, a role he is to repeat in Nicaragua next year, and has arranged peace talks between the Ethiopian Government and Eritrean rebels. Page 36

Right-winger to lead Nicaraguan opposition

By Tim Coone in Managua

THE principal opposition alliance in Nicaragua, known as UNO (National Opposition Union), at the weekend chose a controversial presidential slate to fight the ruling Sandinista party in the forthcoming general elections.

Should UNO win, Nicaragua's next president will be Mrs Violeta Chamorro, the owner of the opposition newspaper La Prensa. As the UNO candidate, Mrs Chamorro now shares its banner with allies of her husband's assassins.

Her husband was Mr Pedro Joaquin Chamorro who, through the newspaper's editorials, fought the right-wing dictatorship of General Anastasio Somoza. The dictator had him assassinated in 1978 but his murder helped to rally middle-ground support behind the left-wing Sandinista guerrillas who swept to power one year later. Since then the newspaper has taken a shift to the right under his widow's tutelage and become the mouthpiece of the right-wing opposition, including the US-backed Contras. The Contras were born out of supporters of the defeated dictatorship.

One experienced observer of Nicaraguan politics said last night: "It is as though she is saying 'my husband's enemy is my friend'". Her elder son, Mr Carlos Fernando Chamorro, is editor of the Sandinista newspaper Barricada.

Mrs Chamorro's running-mate is Dr Virgilio Godoy, the leader of the Independent Liberal Party (PLI) which until 1984 was allied to the Sandinistas. He challenged the Government in that year's elections from a centre-right stance but won only 9 per cent of the vote. His further gravitation to the right into the UNO alliance caused a recent split of the party. It's centre-left is now running independently in the electoral race.

The final choice of the UNO presidential ticket came after two days of intense debate and eight different rounds of voting between the 14 parties. Despite the satisfied smiles on Saturday night it was only last-minute negotiations which saved the nomination, pointing to continuing deep differences.

Mrs Chamorro, who does not have a party affiliation, was obliged to read out a prepared statement in her candidature acceptance speech, promising to abide by the UNO electoral platform if she is elected President next February. Her adopted platform is as broad as the main political trends represented in UNO. It embraces Conservatives, Liberals, Social Democrats and even Socialists and Communists.

Electoral promises include vague references such as "a commitment to a social-market economy". The pages of her newspaper, however, have led the campaign for her candidature and created distrust of her within UNO ranks.

Any pre-electoral splits in the UNO alliance will guarantee victory for the Sandinistas. *They still have a large cushion* of support: they won the 1984 elections with 67 per cent of the valid votes cast. The biggest single opposition party, the Nicaraguan Conservative Democrats (PCDN), which won 14 per cent of the vote in 1984, is also running independently of UNO.

Violeta Chamorro: late husband's enemies are now her allies

Brazil to discuss bank payment

By Stephen Fidler, Euromarkets Correspondent

BRAZILIAN debt negotiators are due in the US this week to discuss a threatened $1.6bn interest payment to commercial banks, due later this month.

Brazil is unlikely to make a payment without the promise of support from the International Monetary Fund. But the possibility of short-term IMF finance to help the country over elections in November and the takeover of a new administration is still being considered by Mr Michel Camdessus, managing director of the IMF.

The assumption is that, if the IMF provided short-term help, banks and other lenders would be willing to amend debt agreements signed last year to provide further help. A $600m bank disbursement has been held up by Brazil's failure to meet its IMF economic targets.

Some bankers claim that some of Brazil's short-term trade and other credit lines will be jeopardised if the payment, due around September 18, is not made. Others are hoping that a partial payment will be made if full payment is not possible.

Mr Sérgio Amaral, director of international affairs at the Ministry of Finance, and Mr Arnim Lore, central bank director responsible for foreign debt, will visit Washington and on Thursday will meet commercial bankers in New York.

Brazil last week announced the exchange of $1.1bn of its external bank loans for exit bonds under the commercial bank financing package agreed last year. The bonds – carrying a fixed interest rate of 6 per cent, a 25-year maturity and a 10-year grace period before principal repayments begin to be made – were issued to 109 bank lenders at the full face value of their loans.

Chile in stand-by deal with IMF

By Barbara Durr in Santiago

CHILE has reached an accord for a $95m one-year stand-by agreement with the International Monetary Fund, retired General Enrique Seguel, the Minister of Finance, has announced in Santiago.

The minister said the IMF agreement, as well as other accords with multilateral organisations, helped to pave the way for Chile to use the Brady Plan for debt reduction.

Given the country's careful debt management and stable economy, he added that Chile would demand benefits equal to or better than the 35 per cent debt reduction achieved by Mexico, the first country to take advantage of – and in effect define – the Brady Plan, named after Mr Nicholas Brady, US Treasury Secretary.

Gen Seguel said: "We must continue to try to be distinguished within the international community as a separate case. Chile today is perceived as a secure, reliable, stable country with a future."

The technical negotiations on Chile's new agreement with the Fund were finalised in Washington last week. Chile's three-year extended fund facility with the IMF ran out last month. The new agreement is expected to be ratified by the Fund's board in October.

While Chile met its previous fund programme targets, it has been attempting to cool its overheating economy during the last five months. Growth in Gross Domestic Product in the first six months was 10.4 per cent, a level that was considered unsustainable.

June statistics showed that cooling measures, including higher interest rates and a speeded up devaluation of the peso, were begining to take effect.

US plans curbs on Soviet Jews

By Lionel Barber in Washington

THE Bush administration has drafted plans to impose curbs on the admission of Soviet Jews because it fears a wave of migration following Moscow's easing of exit restrictions.

If implemented, the plan would represent a shift in long-standing US policy.

Previous policy has been to insist on human rights grounds that emigrating Soviet Jews should have complete freedom to choose their destination.

But the US is finding it increasingly difficult to cope with the cost of Jewish emigration which doubled last year to almost 19,000, and is likely to rise this year to nearly 50,000. The most likely alternative haven for Soviet Jews would be Israel.

The draft plans – drawn up by the State Department and other Federal agencies – are bound to arouse controversy in Congress where both House and Senate members have sponsored bills to make it easier for Soviet Jews and evangelical Christians to come to the US.

The Administration argues that the cost of resettlement is relatively high – about $7,000 per refugee. But officials also say it is proving more difficult to show that the Soviet Jews are political or religious refugees.

The US began to impose stricter rules on refugee status for Soviet Jews late last year when it became clear that President Mikhail Gorbachev's relaxations were leading to a *dramatic increase in emigration.*

The previous wave of Soviet Jewish emigration came during the 1970s, a period of détente between Washington and Moscow. But restrictions were reimposed and became a focus of criticism by the Reagan administration.

Ethiopian delegates to seek ceasefire

By Peter Riddell, US Editor, in Atlanta

A CEASEFIRE in the 28-year-old civil war between the Ethiopian government and the Eritrean secessionists has been set as one of the initial objectives of peace talks starting in Atlanta on Thursday under the chairmanship of former US President Jimmy Carter.

The Ethiopian government and the Eritrean People's Liberation Front have agreed to meet on an open-ended basis without pre-conditions, unlike in previous abortive discussions, in an attempt to end a conflict which has contributed to the death of hundreds of thousands of people through war and famine.

During a wide-ranging interview with the Financial Times, Mr Carter said that while the outcome was "totally unpredictable", he hoped that the preliminary discussions would at least decide an agenda, format, time and place for later substantive talks.

He hoped that the four- to five-member negotiating teams would agree on possible confidence-building measures, notably a ceasefire.

This, he suggested, could lead to an improvement in tribal communications and also to a greater involvement by international relief organisations.

Former President Carter will act as an observer, presiding over the initial sessions and keeping a record of proceedings but not acting as a formal mediator.

The talks in Atlanta follow a number of visits by Mr Carter to Ethiopia over the past year. Both sides expressed an interest in his involvement.

The discussions will be held at the Carter Presidential Centre on the outskirts of Atlanta. This has been closely involved in examining civil wars and similar domestic conflicts. Mr Carter chairs the International Negotiating Network, a private body backed by the Norwegian and Swedish governments and by charitable foundations in the US.

Monday Interview, Page 34

Post for Mousavi

IRANIAN President Ali Akbar Hashemi Rafsanjani yesterday *appointed former Prime Minister* Mir-Hussein Mousavi as his adviser in a concession to radicals within the leadership, Reuter reports from Nicosia. The post of prime minister was abolished by constitutional reforms endorsed by a referendum held during presidential elections in July.

SHIPPING REPORT

Tanker demand rising

By Kevin Brown, Transport Correspondent

BROKERS said the tanker market appeared to be emerging from its summer doldrums last week as demand for Very Large Crude Carriers (VLCCs) began to increase, especially in the Middle East Gulf.

Japanese principals were prominent among those inquiring for tonnage and rates appeared likely to move significantly up as several cargoes were fixed to Japan at around Worldscale 55.

However, Shell subsequently entered the market for 270,000 tons from the Gulf to Singapore and secured a re-let at NWS 45.

Elsewhere, demand continued to be strong for ships of around 1m barrels in the West African loading areas. Rates appeared to have steadied at around NWS 85 for trips to the *US Gulf* when Shell obtained a ship 2.5 points below the previous set level.

Little tonnage was thought to be available for the first week of September in the North Sea and owners were able to push rates to NWS 145 for coastal movements of half a million barrel stems and NWS 130 for trans-Atlantic voyages.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Jul.'89	Jun.'89	May.'89	Jul.'88
USA 000's	6497.0	6561.0	6395.0	6623.0
%	5.2	5.3	5.2	5.4
UK 000's	1771.4	1743.1	1802.5	2327.7
%	6.2	6.1	6.3	8.1
Japan	1500	1450	1460	1531
%	2.2	2.2	2.4	2.5
W. Germany 000's	1973	1915	1948	2200
%	7.7	7.4	7.6	8.6
Belgium 000's	367.5	348.6	357.8	402.1
%	10.2	9.1	9.2	11.3
	Jun.'89	May.'89	Apr.'89	Jun.'88
France 000's	2526.1	2516.8	2534.4	2577.6
%	10.0	9.9	10.0	10.1
	May.'89	Apr.'89	Mar.'89	May.'88
Netherlands 000's	378.0	409.0	426.0	420.0
%	6.3	6.5	6.9	6.8
Italy 000's	3878.0	3945.0	3952.0	3816.0
%	16.6	16.9	16.9	16.3

Source: (except US, UK, Japan) Eurostat

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OVERSEAS NEWS

E Germans continue to flee in hundreds to Hungary

By Judy Dempsey in Budapest

HUNDREDS of East Germans continued to enter Hungary at the weekend as the Austrian, West German and Hungarian authorities worked overtime to agree on the final arrangements for evacuating thousands who still remain in the country.

West German passports will today be issued to 4,000 East Germans who are at present in temporary shelter in four camps in Hungary of which three are run by the International Red Cross and the Maltese Cross, an international ambulance and humanitarian organisation.

However it remains unclear when and how the East Germans will be transported to West Germany, said Mr Wolfgang Wagner, head of two of the camps. But Hungarian media and diplomats say the date of departure might be on Wednesday.

In addition, thousands of East Germans will either be allowed to leave the country on special "permits de voyages" (travelling permits) which will be issued by the International Red Cross.

The Hungarian authorities might also decide to drop all border restrictions for those who will leave the country carrying passports different from those on which they entered the country.

Austria, meanwhile, is also preparing to drop its visa requirements for "certain categories" of East Germans, but only on a temporary basis.

The decision by Hungarian authorities could eventually amount to the largest single exodus of East Germans to the West since the Berlin Wall was built in 1961.

Officials at one of the camps in Budapest, which is run by the Maltese Cross, also confirmed yesterday that scores of East Germans crossed from Czechoslovakia into Hungary.

However, Maltese Cross officials believe that the pressure on the camps will soon be lifted, now that the school holidays in East Germany have ended.

Last week, 200 East Germans a day were arriving at one of the camps in Budapest. The figure peaked to 300 on Friday evening. Ninety more arrived yesterday, all seeking refuge and asking for West German passports.

Although there are 4,000 East Germans in the camps officials reckon that between 15,000 and 20,000 will try to emigrate to the West.

Their fate, however, has received little sympathy from the East German authorities who have sharply criticised West Germany and particularly Hungary for not repatriating the refugees.

They quote a bilateral agreement signed between East Berlin and Budapest in which Hungary was obliged to send back East Germans caught escaping to the West.

"Because Hungary ealrier this year signed the United Nations convention on refugees we will adhere to it," a Hungarian official said.

It is that convention which thousands of East Germans have now put to the test.

Moscow plans $66bn import drive

THE SOVIET Union is importing more than $66bn worth of food and consumer goods to honour the pledges which helped bring an end to July's national miners' strike, Radio Moscow said yesterday, Reuter reports from Moscow.

Mr Suren Sarukhanov, deputy Trade Minister, was quoted as saying that major contracts had been signed with foreign firms.

The announcement came as the government newspaper, Izvestia, reported that petrol had joined a long list of items, including meat, salt and sugar, already in short supply.

"Mr Sarukhanov says more than 43bn roubles ($66bn) have been allocated to buy food and other commodities abroad," Radio Moscow said.

"Most of the money has already been spent. This has made it possible to increase imports of food for the miners of Kuzbass, Donbass and Vorkuta where there were mass strikes recently."

A French businessman involved in one of the deals said he believed Soviet authorities were in a hurry to conclude the imports, particularly of clothing and footwear, before winter.

July's coal strikes, which swept from the Siberian Kuzbass to pits in the Ukranian Donbass and Vorkuta in the far north, highlighted a rapid deterioration in the supply of food and other goods across the country.

Ligachev calls for crackdown

MR Yegor Ligachev, a leading conservative in the Politburo, has demanded political action against nationalists who have flourished under Moscow's reforms, although the government must not be repressive or dictatorial, Reuter reports from Moscow.

Short of brute force, however, it is unclear how the Kremlin can halt nationalist unrest in non-Russian republics, especially Lithuania, Estonia and Latvia, where it has become respectable to talk about outright independence.

Mr Ligachev's comments, aired on national television, followed a similar call for action against nationalists by former KGB chief Viktor Chebrikov on Friday and a central committee statement which denounced Baltic "extremists".

Despite the warnings, leaders of mass political movements in all three republics said they would pursue programmes to loosen or cut ties with the Soviet Government.

Baltic party leaders issued conciliatory statements aimed at placating the Kremlin, but there were clear signs they would not side with Moscow against any movements for autonomy.

In Latvia the Popular Front said yesterday the movement planned to publish in the next few days a new draft programme which would address possible secession from the Soviet Union.

Azerbaijan gears up for week long general strike

Passions are inflamed and independence is the cry on many lips, writes James Blitz from Baku

VIEWED from the roof of the hotel Azerbaijan on Saturday evening, the city of Baku was crying out to be painted by some old master.

Dominating the right of the picture was the Caspian Sea, shimmering in the heat and stretching out to dozens of oil rigs that mean hard work in Baku and hard currency in Moscow.

In the foreground 100,000 Azerbaijani men and women, tightly packed on Baku's colossal main square.

Backs to the sea, their eyes and arms were raised towards the podium. Each new speaker from the unofficial Azerbaijani Popular Front received a roar worthy of a Cup Final goal.

In the far left corner, towering over the podium – though no one seemed to notice him – was Lenin, a goliath-sized statue, furiously pointing at some spot far out in the Caspian. He seemed to be yelling: "Stop this nationalist nonsense and get back to work on those oil rigs!"

But to no avail. The demonstration was a warm-up for a week-long general strike which starts today.

It is the first-ever all Republican work stoppage in the Soviet Union. The rigs will be empty. The cost in lost production prodigious.

The strike is being called to protest about everything. The Azerbaijani Popular Front seems to have as many demands as supporters: it wants to be legalised by the local communist party, it wants economic sovereignty, and of course, it wants Azerbaijan to have Nagorno-Karabakh returned.

Karabakh is inside the Azerbaijani republic, but is now deemed a special territory, effectively run by Moscow, to protect the local Armenian population.

"Karabakh is our pure territory", says Mr Ehtibardar Mamedov, one of the Front's leaders. "We don't want Moscow interfering with it."

But on Saturday night the anger over Karabakh seemed to be lost amidst the cries of independence for all Azerbaijan. "Down with Moscow! Down with dictatorship!"

An independent state is what many people were cheering for. And they will continue to cheer for it unless the authorities muffle the cheers first.

No one dares to ignore the possibility of repression. Last December, Soviet troops brought two weeks of demonstration in Baku to an end by arresting most of the protagonists. Eight months later, the curfew is still in force between 1am and 5am. Everywhere, skinny Russian militia men wield enormous back-up.

Glasnost has not yet come to Azerbaijan's press. The local Tass correspondent seems the most dejected man in town. "Need any photos?" he moans. "There's no way our office in Baku will use any of this demonstration stuff."

Nevertheless, beneath the surface, the local party does appear to be adopting a more conciliatory policy towards the popular front.

But there are plenty of hard liners around.

Mr Zvyad Zamebadze, the central committee secretary, in charge of the economy, bravely stood at the back of the popular front podium on Saturday and held a quite, impromptu chat with a few western journalists.

"I'm telling you bluntly," he said, "This strike won't succeed. They'll get no support."

It is a million pities for him that he was overheard.

Within a second, a rousing speech had been interrupted. In another second the hapless party man's views were being belted out to the 100,000. In Baku, they know how to boo as well as cheer.

Congress to press Bush for Polish aid boost

By Peter Riddell and Lionel Barber in Washington

CONGRESSIONAL leaders will this week press President George Bush for an expanded programme of US assistance to Poland.

The Bush administration is considering an increase in the already announced $50m in food aid for Poland, possibly by as much as another $30m.

However, the president has so far moved slowly on requests from Warsaw for an increase in help above the $119m in industrial and environmental aid he announced when visiting Poland in July.

Mr John Sununu, White House chief of staff, echoing the administration's caution, said Poland's problems would not be solved in one fell swoop.

As Congress returns this week from its month-long recess, momentum is growing for a more adventurous US response to political changes in Poland, notably the coming to power of a Solidarity-led Government since Mr Bush's visit.

Several leading members of Congress, in particular Sen Robert Dole, the Republican Minority leader, have visited Warsaw in the past few weeks and have returned urging fresh support. Sen George Mitchell, the Democratic Majority leader, has called for "a comprehensive plan" to help Poland. His staff later explained that this should involve not primarily more cash, but food aid, debt rescheduling and technical aid for restructuring the economy.

There is considerable reluctance to pour a lot of money into Poland, not only because of US budgetary constraints, but also because US legislators are pessimistic about the short-term state of the Polish economy and industry.

At the end of last week President Bush told reporters at his holiday home in Maine that the administration would be working during the coming week to speed an emergency shipment of food to Poland.

The US is also seeking to hasten agreement on the rescheduling of Poland's $39bn of official debts by the Paris Club of creditor nations.

ITALIAN MINISTERS TO MEET

Scandal grows over $1.5bn in BNL Iraqi loans

By Alan Friedman in Milan

MR Nerio Nesi, chairman of Banca Nazionale del Lavoro (BNL), Italy's biggest bank, is to hold a series of urgent meetings this week with Government ministers in Rome to discuss the widening scandal over more than $1.5bn of unauthorised loans dispensed by the bank's Atlanta, Georgia, branch to US and European companies exporting industrial and agricultural products to Iraq.

BNL has steadfastly denied that any of the exports included armaments or weapons related equipment. The bank has also denied it risks any loan write-offs as a result of the Iraqi affair because part of the credits were guaranteed by the US Commodity Credit Corportion (CCC) and the rest by Iraq's Cenral Bank.

In the US, Moody's, the rating service, has placed the Italian bank on its "credit watch" list.

BNL's top three executives have meanwhile been despatched to Bagdhad, New York and Atlanta in order to co-ordinate the international investigation, which now involves officials from the Federal reserve, the Bank of Italy, the FBI, the District Attorney's office in Atlanta and a Rome investigating magistrate. The Italian bank has also decided to reorganise the management of its North American operations.

In Rome, the Italian Central Bank is monitoring the BNL affair in order to ascertain whether the US CCC guarantees will remain valid.

The BNL-Iraqi export loans were made through the issue of 2,500 letters of credit issued over the past two years by the Italian bank's Atlanta branch. Many of the credits were issued without the authorisation of BNL's head office for North America in New York. Among the companies believed to have benefited from the export credits were numerous grain shippers, major US corporations including at least one Detroit-based car group and at least a dozen Italian companies. It is not known why Italian companies would go to the Atlanta, Georgia, branch of an Italian bank to seek export credits for Iraq.

The BNL affair first came to light early last month when the FBI informed the Federal Reserve that it was looking into possibly irregular dealings by BNL's Atlanta branch. Mr Chris Drougoul, the 35 year old French-Algerian manager of BNL's Atlanta branch who has been suspended by the bank, has been questioned by the local authorities and the Federal Reserve.

Mr Nesi on Saturday repeated the bank's denial that any illegal arms shipments were involved. The BNL chief also said that it was too early to estimate the exact size of the bank's overall exposure, but he insisted that Iraq would honour all payments.

Budapest reform plan

IN WHAT is seen as a desperate attempt to regain the confidence of the electorate before next year's free parliamentary elections, Hungary's reformers yesterday agreed a package of measures for the party congress next month, Judy Dempsey reports from Budapest.

The measures, involving reform of property rights, the economy and party structures, were adopted after a meeting in Budapest of the "Reform Circles" – liberal party members inspired by Mr Imre Pozsgay, tipped to be Hungary's next president.

But while the Circles, which so far contain 1,000 supporters from the 740,000-strong party, sought a coherent programme, it became clear party members know they could face defeat in free elections.

Mr Rezso Nyers, party chairman, warned any attempt to persuade electors to vote for the party would not be easy.

OVERSEAS NEWS

Blacks defy ban on Durban's 'white' beaches

By Jim Jones in Johannesburg

SEVERAL thousand black South Africans thronged Durban's white beaches and paddled in the Indian Ocean yesterday in peaceful defiance of apartheid. The protest contrasted with Saturday's march in Cape Town in which 500 people were arrested and marchers dispersed by police armed with water cannon and whips.

Breaking the Cape Town protest has presented the government with a dilemma. Police action risks alienating black leaders whom it hopes to bring into talks after Wednesday's general election. But a less forceful handling could exploited by the ultra-right Conservative Party (CP).

The cabinet is reported divided on the issue. Mr Barend du Plessis, the Finance Minister, said "chasing people off beaches was a mistake". He was referring to events a fortnight ago when police drove blacks from white beaches in Cape Town. About 1,000 people were arrested nationwide on Saturday for participating in the defiance campaign of the Mass Democratic Movement (MDM), though most demonstrations were peaceful.

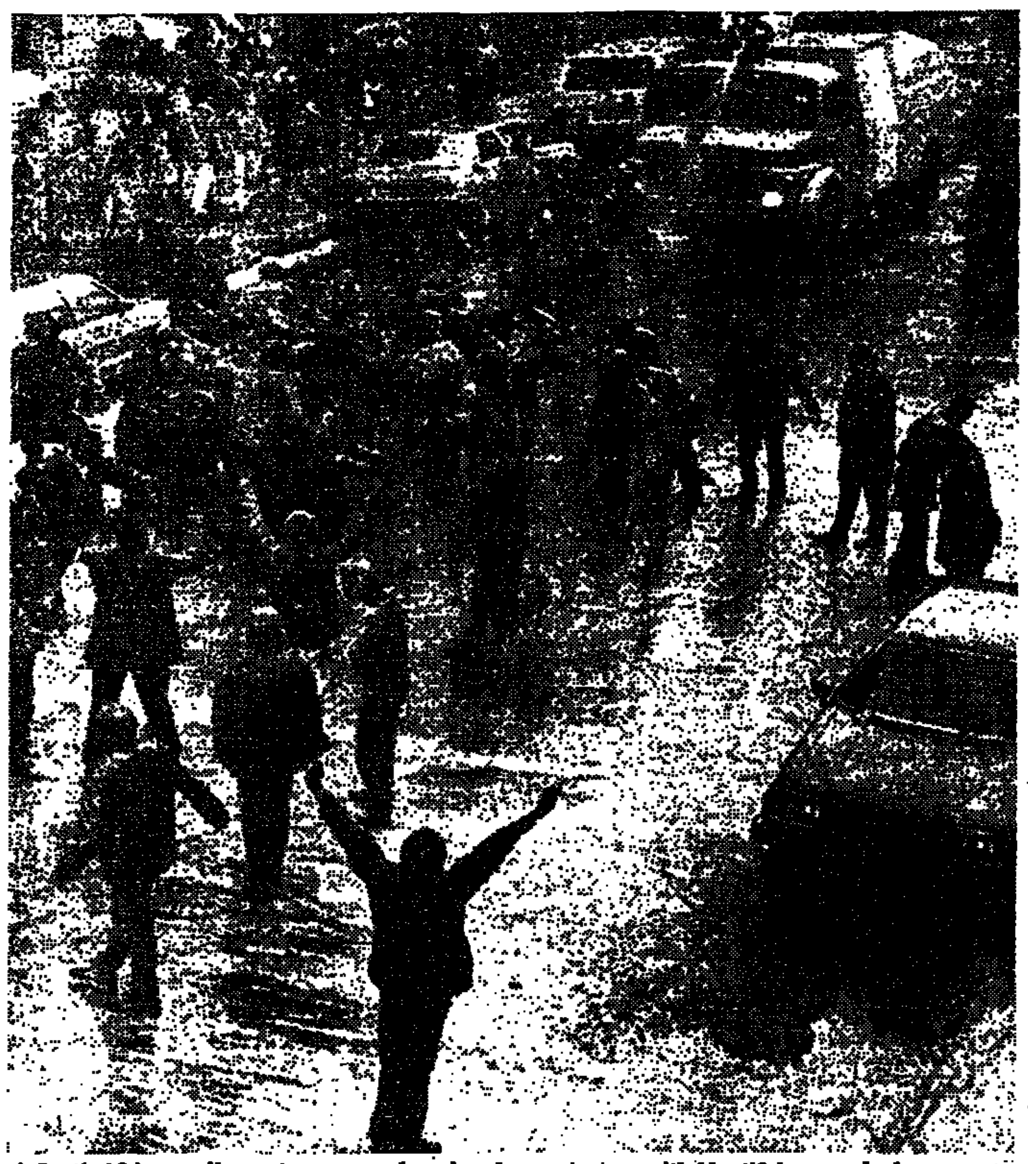
Yesterday, police units did not intervene to prevent blacks from using Durban's whites-only beaches, though several demonstrators were detained when their protest spilled over into a beach-front road.

On Saturday, the police set up road blocks to prevent demonstrators travelling into Cape Town to join a march on parliament. The march was halted in the city's central Greenmarket Square as police dispersed marchers and sprayed them with purple dye. They arrested people marked by the dye.

In Soweto, a protest planned for the township's Jabulani Stadium was stopped when 2,000 people were turned away by army units. In central Johannesburg yesterday, an MDM meeting planned for the city hall did not take place.

Reuter adds: Workers removed Whites Only signs from parks in a South African town this weekend after a landmark court case ruled them illegal. Legal experts say the decision marks the start of the end for the Separate Amenities Act, a pillar of apartheid.

The signs came down ahead of a deadline imposed by the Pretoria Supreme Court on Carletonville Council, controlled by the extreme rightist Conservative Party (CP). The court had ruled council duties extended not to whites only, but to the entire community. Carletonville was thus negligent in its trusteeship of the public interest by excluding blacks from the park.



A South African police water cannon drenches demonstrators with identifying purple dye

No quick fix for ailing South African economy

Bankers fear renewed foreign borrowing is a distant prospect says **Patti Waldmeir**

HENDRIK VERWOERD, the architect of "grand apartheid" in South Africa, told whites in the 1960s they must choose between being pure and poor or mixed and rich.

Twenty-odd years later, as voters go to the polls in Wednesday's general elections, that choice is probably no longer open to them.

Few economists would disagree that Dr Verwoerd's apartheid policies were a major cause of South Africa's economic decline. But just as few believe that abolishing apartheid would, on its own, bring prosperity.

Ending apartheid would bring many economic benefits: cheaper imports, better technology, a halt to the brain drain. But no one can be sure that Pretoria's estrangement from the international financial community - which suspended new lending to South Africa after Pretoria imposed a partial debt moratorium in 1985 - would end at a stroke with the demise of apartheid. Shortage of new capital is the single most important factor restraining growth in South Africa.

The banks did not halt lending to South Africa because they objected to Pretoria's morals; they did so because political instability made them reluctant to put large amounts of capital at risk in South Africa.

In the near term, foreign banks are *coming under increasing moral pressure* from shareholders not to roll over outstanding loans to South Africa, or to exact a high political price for doing so. As the focus of the international sanctions lobby shifts to bank lending, that pressure can only increase.

By the middle of next year, South Africa hopes to have rescheduled some $8bn in debts covered by the partial moratorium. Supporters of sanctions are determined to disrupt or prevent the rescheduling.

Whether or not they succeed the odds, at the moment, are that the banks will withstand the pressure and conclude a third interim agreement with Pretoria by June 1990 — economists fear that resumption of new lending to South Africa could still be a distant prospect.

"If the government continues to resist the final abolition of apartheid, then South Africa will be denied new capital because it is refusing to reform," says one economic analyst in Johannesburg. "And if they do reform - and even bring in majority rule - then bankers would be wary of the new government until it proved that its politics and economics made it a good credit risk. That cannot be done overnight."

Meanwhile, shortage of capital places intolerable curbs on economic growth in a country whose African population is rising by 3 per cent a year. By the year 2000, South Africa will be a nation of 47m people. Economists applaud improvements in government economic *management - and in private sector* efficiency - in recent years, but acknowledge that providing a decent standard of living to 47m people will be a struggle.

Mr Chris Stals, the new Governor of South Africa's Reserve Bank says the country needs economic growth of 5-6 per cent a year to keep pace with population growth. Without new capital, Pretoria might manage 3-4 per cent yearly growth. But while exporting capital at its current rate - R15bn worth foreign debt has been repaid since 1985, and a further R10bn has left the country through other channels - the upper limit on growth would be nearer 2 per cent, he says.

He stresses that South Africa has done all it can to keep its image as a reliable debtor. The first and second interim rescheduling agreements, covering August 1985 to June 1990, have been followed, at high cost to economic growth and living standards.

"We have been able to survive the balance of payments crisis of the past four years," says Mr Stals. "But it is very frustrating to use the whole of the surplus on your current account just to repay debt."

"And we are still on thin ice," Mr Stals adds. He says it will be difficult for South Africa to generate a surplus on the current account of the balance of payments of more than R6bn next year - just enough to finance expected capital outflows.

Repayments of both rescheduled debt, *and other foreign debts maturing in* 1990, would total about $2bn next year. And a further $1.5bn will fall due in 1991. To generate the current account surpluses needed to make those repayments, Pretoria must suppress economic growth to keep imports to a level which would not strain the balance of payments.

Mr Stals says the economy is already slowing: GDP growth of 3.2 per cent in 1988 is expected to fall to no more than 2 per cent this year. The anti-inflation campaign he announced last week (which calls for the continuation of restrictive fiscal and monetary policies to combat inflation expected to peak at near 17 per cent later this year) may well suppress growth further.

Mr Stals predicts GDP growth of 2 to 2.5 per cent next year, but he acknowledges this may be overoptimistic; private economists say 0.5 to 1 per cent may be more realistic.

Employment will inevitably suffer, especially among blacks. But though Mr Stals concedes that low growth might exacerbate township unrest, as it did in the mid-1980s, he asks, "what kind of unrest would you have if you had 30 or 40 or 50 per cent inflation?"

In the longer term, Mr Stals argues that South Africa must become self-sufficient in financing domestic growth; that means government must stop borrowing domestic savings to finance current spending; positive real interest rates must be maintained to encourage saving; and productivity must be *increased through improved training.*

It is a tall order. But in the short to medium term, it is difficult to see that Pretoria has any alternative.

US battle for Seoul $3bn fighter contract

By Maggie Ford in Seoul

TWO US defence contractors are vying for a $3bn contract to equip South Korea with a new generation of jet fighters, in a deal which will boost the country's aerospace industry.

For several years, the Seoul Defence Ministry has been inspecting the respective merits of the F16, made by General Dynamics and the F/A 18 Hornet, made by McDonnell-Douglas.

A decision has been delayed for political and technical reasons, but an announcement by Mr Lee Sang Hoon, the Defence Minister, made in Washington last month suggested the award was imminent.

The contract, known as the Korean Fighter Programme, will involve co-production of 120 jet fighters and the transfer of technology to several South Korean companies such as the Samsung and Daewoo groups, along with Korean Air.

The companies will not be involved in joint design development as under the US/Japanese FSX fighter deal, where the fate of US technological advances became a political issue in Washington.

The South Korean Air Force already has 36 F16s, which have a 25 per cent price advantage over the McDonnell-Douglas product, and Daewoo Heavy Industries, a local aerospace manufacturer, already manufactures parts for the fighter.

General Dynamics stresses its fighter's advantages on price, logistical inter-operability with the present capability of the US Air Force, which has a large number of F16s stationed in South Korea, cheapness to run, and proven ability under local conditions.

McDonnell-Douglas argues that its more recently developed fighter, which is capable of operating from aircraft carriers, is more advanced, and with its two engines, compared with one on the F16, is likely to be more cost effective, especially during peacetime.

The South Koreans have previous experience with the older F4 Phantom, also developed by McDonnell-Douglas which is now being phased out.

The Defence Ministry is *likely to make the award on* the basis partly of how they see the future defence needs of the country, and partly on the basis of offset proposals. Developing an aerospace industry is a key policy goal of the South Korean Government, and both US companies have developed detailed offers as part of their bid.

Seoul wants to obtain manufacturing technology, management expertise and design and development ability for its local companies under the contract, with a view eventually to becoming self-sufficient in its defence needs and perhaps an important exporter.

General Dynamics has a high opinion of the South Koreans' ability developed during the current FX parts-making programme, noting that Daewoo Heavy Industries had developed some innovative techniques in setting up the factory to manufacture the F16 parts.

Under their proposed bid, 72 of the 120 fighters would be produced under licence in South Korea, with 36 assembled from kits and 12 made in the US. The company is also offering to help Seoul with the design of trainer aircraft.

McDonnell Douglas believes that the South Koreans will gain more from the production of the F/A 18 because of its more advanced technology, especially in composite materials and crew station design.

Both companies are offering indirect offset contributions including technology transfers, and other industrial participation, formerly very important in South Korean defence deals, but now less so as the country becomes an industrial power.

Gandhi accused of cover-up in Bofors payments affair

By David Housego in New Delhi

UNEXPECTED disclosures by one of India's most senior generals have provided evidence to suggest that Mr Rajiv Gandhi, the Prime Minister, was directly involved in a "cover-up" of the Bofors affair.

General K. Sundarji, former chief of the army staff, said he had urged in 1987 that India threaten to cancel the contract with Bofors, the Swedish arms group, for a new artillery gun to force it to reveal to whom illicit commissions had been paid.

In an interview with India Today magazine, General Sundarji — who was head of the army when the contract was signed — said he told the Government that if cancellation resulted in a two-year delay while purchase of other artillery was negotiated, this was an "acceptable" risk to national security.

In the wake of this advice, the Defence Ministry prepared to threaten Bofors with cancellation to extract the details. But according to the General this approach was abandoned in July 1987 after direct intervention from the Prime Minister.

"Vohra (then additional secretary for defence) told me that the *PM lit into him for adopt*ing a threatening approach towards Bofors to force them to come out with the information," General Sundarji said in the interview. "Vohra came back from the meeting (with the Prime Minister) somewhat disgusted and I believe he booked calls to Bofors to tell its officials not to come."

The General's account runs counter to earlier statements by Mr Gandhi asserting that the Defence Ministry had told him that a cancellation would jeopardise national security.

Mr V.P. Singh, leader of the Opposition, yesterday called on President R. Venkataraman to "advise" the Prime Minister to resign because of alleged "blatant untruths" over the Bofors deal he had told in Parliament and outside. Coming close to suggesting that the Prime Minister had personally benefited, Mr Singh said that Mr Gandhi's intervention to block the cancellation of the contract showed "he was deeply interested in the Bofors kickback issue."

The disclosures went without response from the Government whose tactics now would seem to be to stonewall until the election due by the end of the year. The risk for Mr Gandhi, who left Delhi yesterday for the non-aligned conference in Belgrade, must be that other more embarrassing details will emerge before then.

In the interview General Sundarji called on Mr Arun *Singh, Defence Minister at the* time, to speak out as well. Mr Singh, a former close friend of Mr Gandhi, resigned without explanation in 1987 shortly after the pressure on Bofors was lifted.

The General's disclosures come as the Opposition is considering how to follow up its partially successful national strike last week aimed at building up popular pressure against Mr Gandhi. Among further measures they are considering are a civil disobedience campaign and further strikes at local or state level.

Among details that emerge from General Sundarji's *remarks — the first time a for*mer head of the army has ever take issue with a Prime Minister of the day in such fashion — is confirmation that the payment of commissions on arms and major public contracts in India is the norm. He said: "Generally many Governments have been getting a percentage of many of these large deals, whether defence deals or otherwise, perhaps for party funds. I don't think this is a new phenomenon."

In a revealing passage of the emotional strain the controversy over the Bofors issue has caused him, the General said at one point to his interviewer: "You don't know how much better I feel for having told you everything." General Sundarji has often been accused of having supported the purchase of the Bofors gun to please the Prime Minister.

Egypt sentences 26 Moslem militants

By Tony Walker in Cairo

AN EGYPTIAN court at the *weekend sentenced 26 Moslem* militants to long periods in jail in a continuing crackdown on dissidents of both the left and the religious right, thousands of whom have been detained this year.

The government's campaign against dissent appears to be part of a far reaching and determined attempt to crush any hint of political opposition that might develop into a threat to public order at a time when the authorities are seriously concerned about prices rises and unemployment.

Dr Ismail Sabri Abdallah, a leader of Egypt's broad left Tugammu or "rally" Party, yesterday accused the government of staging a pre-emptive "coup" against leftists, including two prominent human rights activists who have been detained under the country's emergency law.

A Western official, whose brief is to monitor political developments in Egypt, said it seemed that the government was "cracking down on everybody these days, right, left and centre".

Observers believe that the authorities, who have been engaged in a remorseless campaign against Islamic extremists, have also decided to confront leftists following a serious strike at the Helwan Iron and Steel works late in July, which resulted in the death of one of the workers *when police stormed the prem*ises.

In the past month the security forces have:

● Arrested 41 Shiite Moslems accused of plotting a coup in Egypt;

● Detained 15 members of the mainstream Moslem Brotherhood, including a prominent member of parliament, accused of recruiting and indoctrinating children at a summer camp.

● Arrested a large number of alleged leftists, including communists. Among those arrested were a lawyer and a researcher attached to the Arab Organisation for Human Rights.

● Continued their harassment of Islamic groups agitating for the introduction of Islamic law in Egypt.

Human rights groups are demanding the release of Mr Amir Salem, a human rights lawyer, and a researcher, Mr Mohammed el-Sayed Saeed. The US-based Human Rights Watch called last week for the "unconditional release of the two men as long as they are not charged with an offence that is recognisably criminal".

Among the 26 Moslem militants sentenced yesterday on charges of attempting to murder two former ministers of the interior and a journalist, five received life with hard labour. Two of the five were tried in their absence.

Vietnam rejects political reform

NGUYEN Van Linh, the Vietnamese leader, has rejected any multi-party system and the hastening of democratic reform in his country, AP reports from Bangkok.

Speaking about sweeping changes in the communist world, Mr Linh emphasised in a 10,000-word speech that liberalisation would come in the economy rather than in political life.

"It is not our policy to hasten renovation of the political system while preparations are still inadequate," he said. "Neither is it our intention to effect limitless democratisation."

Mr Linh, regarded as an eco*nomic reformer, was speaking* at a meeting in Hanoi to mark Vietnam's National Day.

Japan detains Chinese from refugee boat

By Robert Thomson in Tokyo

JAPANESE police detained 31 Chinese yesterday and were searching for more members of a refugee boat found anchored near Nagasaki, while other Chinese facing deportation claim they will be arrested and executed on *their* return to China.

The Chinese arrested yesterday bring to almost 500 the number of Chinese nationals, some posing as Vietnamese refugees, to have been detained in recent weeks by Japanese authorities, who have begun negotiations with the Chinese *government for the return of* virtually all those in custody.

Police were told by one of the 31 Chinese that they paid just over $12,000 for passports, none of which have the Chinese government seal required to make them valid, on the presumption they would be permitted to stay in Japan and work would *be easy to find.*

The surge in Chinese arrivals has prompted Japan to screen all boat people for the first time, and this will be intensified in a fortnight, when a distinction will be made between economic and political refugees from Vietnam.

One group of 160 Chinese *nationals* said they had paid bribes to police before leaving Fujian Province, in the south.

Guangdong trade official sacked for corruption

A SENIOR foreign trade official in China's Guangdong Province was sacked for corruption yesterday, the latest high-level victim of a nationwide crackdown, Reuter reports from Peking.

Xu Yunian, director of the province's foreign economic relations and trade committee, was dismissed for "squandering, and abusing power for personal gain", according to the official New China News Agency.

It said Xu had spent HK$228,000 (£18,500) to import a luxury car and a similar *amount to buy and lease* mobile telephones for his own use.

He also allocated himself a huge flat and arranged for it to be decorated on the cheap, the agency said. It did not say whether criminal charges would be brought, but said he was still under investigation.

Guangdong, which borders the *British colony of Hong* Kong, is China's wealthiest province in terms of foreign trade.

● **AP adds:** Passenger fares on Chinese trains, aircraft and ships will roughly double tomorrow, to pay for badly-needed renovations and expansion. Train tickets will go up *from Yuan 0.02 (0.5 US cents)* per person-kilometre to at least Yuan 0.04.

Japanese and US officials today begin a difficult new round of trade negotiations. **Ian Rodger** looks at the complaints raised by each side

Spectre of sanctions haunts talks

WHAT WASHINGTON WANTS

1. Land use. Low property tax and exemption from succession duties on farmland promote hoarding of land and discourage its sale, exacerbating shortages in urban areas. This is a financial barrier to foreign businesses seeking premises.

2. Savings. Japanese households saved 15.1 per cent of dis*posable income in 1987, com*pared with 6.3 per cent by US households. High savings were encouraged when Japan was rebuilding its economy. Now they largely reflect lack of opportunities to spend money, especially as many people cannot buy homes because of high land prices. The US claims this discourages consumption, including sales of imported goods.

3. Distribution. Japanese industry developed in a protected environment and manufacturers formed close, long-term links with domestic distributors and retailers. These relations are cemented in various ways, including ownership ties and inventory finance for retailers. It has thus been difficult for foreign manufacturers to arrange distribution of their products, regardless of price and quality. In one notorious example, most shops selling electrical goods are affiliated with one or more of the big domestic manufac*turers. They would not con*sider selling foreign appliances for fear of offending their suppliers. Car dealers have also refused to offer imported lines.

4. Exclusionary business practices. Bid rigging is common in the construction industry and cartel arrangements are tolerated in many sectors and encouraged in a few.

5. Retail pricing. As a result of exclusionary practices, Japanese manufacturers have usually kept their domestic prices significantly higher than their prices overseas. The US complains that the higher margins on domestic sales enable them to be more competitive in foreign markets.

SENIOR Japanese and US government officials begin today in Tokyo the first round of what will be perhaps the most difficult and dangerous bilateral trade talks they have ever undertaken.

The talks, which have been given the awkward title of Structural Impediments Initiative, or SII, are aimed at nothing less than changing the way the economies of the two countries work.

Yet the US side, impatient with Japan's persistent large trade surpluses, wants rapid and substantial results, while the Japanese side, weakened by political turmoil at home, may be unable to take even minor action in the short term.

If that turns out to be the case, the Bush Administration could come under heavy Congressional pressure to impose sanctions on Japan next spring under the so-called Super 301 clause of last year's Trade Act, a move which could badly sour bilateral relations in general.

The SII initiative was proposed last May by the Administration as a way of avoiding sanctioning Japan under Super 301. However, the two sides have agreed to produce an interim report on SII in the spring, just as the deadline for deciding on action under Super 301 occurs.

Even if the Japanese Government was not politically weak at home, the negotiations, which are to take place at two-monthly intervals for a year, would be difficult. In the past, trade talks between the two countries have always been on specific subjects and there has been general agreement on the issues involved and often on the objectives as well.

For example, the yen-dollar talks, started in 1984, were aimed at deregulating Japan's short-term money markets. Both sides agreed on the issues and on the ultimate objective. The only points of difference were on the best timing of the deregulation process.

In the SII talks, the subject matter is vast, as can be seen in the issues raised in preliminary papers submitted by the two sides. It will take some time for them just to find out which ones are the most *important to the other.*

Ultimately, the two may share the same objective — having their economies work better — but the potential for disagreement on how to get there seems considerable.

Moreover, most of the issues are highly political, so the officials involved, senior as they may be, will probably not be able to commit their governments to much.

It is difficult to see what the US wants or expects from the talks. Behind their demands for rapid and substantial results, US officials know that nothing they are asking for will have a big impact on the bilateral trade imbalance in the near term. They have admitted that more than three-quarters of the imbalance is caused by macroeconomic factors, especially the US budget deficit.

As for the rest, if Japanese exports to the US were suddenly curtailed, most would be *replaced by imports* from elsewhere. If the many structural impediments to Japanese markets were suddenly removed, countries other than the US would probably be better placed to exploit the opportunities created.

The Japanese interest in SII is clearer. For one thing, if the initiative succeeds in driving away the spectre of Super 301 sanctions, that is all to the good, in the Japanese view.

Also, despite their complaints, Japanese officials like having foreign pressure to remove protectionist practices because it gives them something with which to attack powerful vested interests.

WHAT TOKYO WANTS

1. Savings rate. Both at government and personal levels, the US is not generating enough savings to finance its spending. Policies for promoting savings and discouraging consumption should be studied.

2. Corporate investment and manufacturing strength. The supply of long-term investment capital for industry is inadequate and its cost is high. Foreign direct investment is helping to improve US manufacturing strength, so it should not be discouraged.

3. Corporate culture. Performance is hindered by the preoccupation of many companies with short-*term profits,* directors' remuneration and shareholders' dividends. The proliferation of leveraged buyouts and hostile takeovers detracts from attention to the business. US manufacturers also lack interest in exporting and are not given enough encouragement by the Government.

4. Government regulations. Export controls are excessive, especially on sales of alleged strategic goods to Communist countries. US government policies giving preference to domestic goods have removed the need for US manufacturers to be competitive in some sectors and caused prices to rise. Anti-trust laws hinder competitiveness of US companies in some sectors.

5. Research and development. The Government should provide continuous assistance programmes. Better communication is needed between the R&D effort and the running of businesses. The inhibiting effect of anti-trust laws on co-operative R&D projects should be examined.

6. Manpower education and training. Confusion exists between public and corporate roles. The basic education system needs to be improved and more emphasis placed on vocational training. Training in languages of priority export coun*tries should be encouraged.*

UK NEWS

Howe remains determined to influence Government

By Philip Stephens, Political Editor

SIR Geoffrey Howe, the deputy prime minister, yesterday underlined his determination to remain an influential force in Mrs Margaret Thatcher's Government after his forced move from the Foreign Office in July's cabinet reshuffle.

In his first interview since his appointment as Leader of the House of Commons and Deputy Prime Minister, Sir Geoffrey made it clear he envisaged an "active and independent role" in shaping policies in the run up to the next general election.

He sought to downplay his differences with Mrs Thatcher over her insistence he should make way as Foreign Secretary for Mr John Major, but added that he still saw himself as a candidate for the future leadership of the Conservatives.

Sir Geoffrey's comments, which included a number of references to the importance of key decisions being fully debated in Cabinet, will reinforce the view at Westminster that Sir Geoffrey is determined not to be brushed aside by the Prime Minister.

The interview came against the background of two new opinion polls showing the Labour Party retains an 8-point lead over the ruling Conservatives and amid continuing grumbling among the Government's own supporters about a number of its policies.

His remarks may rekindle concern among backbenchers about the potential for internal conflicts at the highest level of the Government if Mrs Thatcher is unwilling to delegate significant authority to Sir Geoffrey.

Despite suggestions from Downing Street – the prime minister's official residence – that his designation Deputy Prime Minister was purely a courtesy title, Sir Geoffrey emphasised he had now plans to take a backseat or subservient role.

He will chair a number of key cabinet committees, including those planning the legislative programme and adjudicating in public spending disputes. Yesterday he insisted that the scope for potential conflict with the Prime Minister had been greatly exaggerated by the media.

He acknowledged, however, that Mrs Thatcher had "strong views" and "a strong sense of purpose" and said that he did not doubt that, as in the past, they would have some differences of view.

Ferriday 'plans return to UK'

BY Richard Tomkins, Midlands Correspondent

MR John Ferriday, the man at the centre of the Eagle Trust affair which is under investigation by the Serious Fraud Office, was yesterday said to be planning to return to Britain to give his version of events.

Mr Ferriday, chairman of Eagle Trust until June, went overseas last month amid publicity over the auditors' difficulty in tracing about £13.5m of Eagle's funds.

Eagle's new chairman, Mr Malcolm Stockdale, had earlier called in the Department of Trade and Industry to investigate the whereabouts of the £13.5m. The DTI passed the case to the Serious Fraud Office.

Mr Ferriday, 45, reportedly told the Sunday Telegraph at the weekend that he was coming back to Britain "to set the record straight."

He was also reported as giving a comprehensive explanation of how the £13.5m was used to finance the purchase of Eagle's own shares following the collapse of a £21m rights issue in the October 1987 crash.

Under the Companies Act a UK company cannot legally purchase its own shares except under certain clearly defined circumstances. These include the requirement that shareholders receive prior notification and give their explicit authority, and that each such transaction is reported to the Stock Exchange.

The suggestion is Mr Ferriday brought in friends and associates to sub-underwrite the 1987 rights issue, but when it flopped, many of them were unwilling or unable to meet their commitments.

In an attempt to save the situation, the interview says, arrangements were made for Eagle to loan funds to Connect, a parcels company later to become an Eagle subsidiary. Connect passed them to another company called Automotive Industries (UK), and that company used the money to take up the rights from Savory Milln, the stockbroking subsidiary of Swiss Bank Corporation that organised the rights.

Mr Ferriday is reported as accepting all responsibility for the arrangements.

TUC CONFERENCE

Willis predicts era of union ascendancy

By Charles Leadbeater and John Gapper

MR NORMAN Willis, general secretary of the Trades Union Congress (TUC), yesterday delivered an upbeat assessment of the union movement's prospects, declaring that the political and economic tide had turned in its favour.

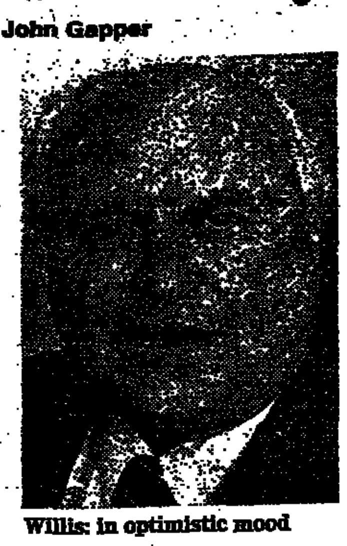
On the eve of the TUC's annual conference in Blackpool, north west England, Mr Willis said there was a new mood of confidence in the union movement which would mark the end of ten years in which the unions have been on the defensive.

After a decade in which the unions have been hit by tough Government legislation, high unemployment, employment growth in non-unionised sectors and more assertive management strategies, the unions had now laid the foundations for significant membership growth in the next few years, Mr Willis said.

He said 1989 might be regarded as a turning point for the unions because over the summer several unions have taken successful industrial action without falling foul of the law or losing public support.

Mr Willis was buoyed by opinion polls published in two Sunday newspapers which showed a majority believed unions were essential to protect people at work.

A Mori poll in the Sunday Times found 58 per cent of people blamed managers for economic problems, but only 19 per cent blamed unions. For the first time since Mori started asking the question in 1975, a majority said unions did not have too much power.



Willis: in optimistic mood

A Gallup poll in the Sunday Telegraph found that only 14 per cent of people thought the Government's union legislation had not gone far enough, while 33 per cent said it had gone too far.

Mr Willis said the unions were ready to launch a recruitment drive, especially among part-time, women workers in the service sector, which would create a "tidal wave of trade unionism."

Mr Willis said he was confident Congress would today approve his proposals to reform the membership of the TUC general council, despite the opposition of a group of large left-wing unions.

Unit says women may lead casual workforce

By Jimmy Burns, Labour Staff

WOMEN could become the new casual workforce of Europe following the creation of a single market in 1992 unless urgent measures are taken to safeguard their rights, according to the Low Pay Unit, the research group.

In a report published today, the Unit states that Britain has spearheaded a deregulation of labour markets which is spreading rapidly across Continental Europe and could become the norm after 1992.

It argues that in the name of flexibility, women are increasingly being employed on a part-time, temporary or casual basis, as homeworkers or on a variety of new types of contract which "erode their rights as employees."

Drawing on a comparative survey of conditions in Britain and The Netherlands, the reports concludes that flexible working is associated with loss of benefits, insecurity of employment, low pay, and exclusion of legal protection which is available to full-time permanent employees.

The TUC Congress is due this week to debate a motion calling for a Europe-wide action to improve working conditions for women both in the office and at home.

● *What Price Flexibility? The Casualisation of Women's Employment. Low Pay Unit, 9 Upper Berkeley Street, London W1H 8BY. (Price £3.00p)*

Strike vote likely at Rolls-Royce and BAe

By Charles Leadbeater, Labour Editor

Rolls-Royce and British Aerospace (BAe), two of Britain's leading engineering groups, seem increasingly likely to face strike ballots called by engineering unions in the next stage of their campaign to win a reduction in the working week to 35 hours.

The two companies have emerged as leading candidates for ballots on strike action after a series of mass meetings addressed by union leaders over the past month.

The programme of meetings, several of which attracted thousands of workers, was designed to rally support for the Confederation of Shipbuilding and Engineering Unions' campaign to win a four hour cut in the manual workers' working week and a two and a half hour cut for white-collar staff.

The unions have made 12 companies in the Engineering Employers Federation targets for possible ballots. But union officials report the strongest response has come from workers at Rolls-Royce and BAe.

Shop stewards from the two companies are expected to meet engineering union leaders on Tuesday before a final decision is made.

It is likely the unions will aim at a central plant in each company, where industrial action would quickly bring other plants to a halt by stopping the flow of components.

Union leaders believe both companies would be under pressure to concede a reduced working week as they have strong order books. They believe the mounting pressure of the campaign, combined with skill shortages, prompted Rolls-Royce last month to pay an 8.9 per cent increase to workers at its Bristol plant.

The other companies which have emerged as the most likely targets for action are Lucas Industries and GKN, the components suppliers. A strike at either company would threaten components supplies to the car industry and other manufacturing companies.

Some officials of the AEU, the union leading the campaign, are pressing for targets for strike action to be announced this week. However Mr Bill Jordan, the AEU president, said it was likely the unions would wait until at least next week, when they will have the details of how much money has been raised through a membership levy.

Suppliers face shortage of Chinese nuts

By Richard Donkin

BRITISH industrial suppliers are facing a shortage of hexagon nuts caused by a squeeze on supplies by China, the largest exporter.

According to one distributer supplies of steel hexagon nuts began to dry up last November when deliveries became increasingly erratic.

Imports have now slowed to a trickle and some distributers, faced with a run on their supplies, have introduced rationing.

Several factors are thought to have affected supplies. The Far East is suffering a steel shortage and since China buys steel with dollars but sells nuts to the UK in sterling it has found the margins so tight it has not been worth exporting to the UK.

A currency shortage has also cut into China's steel buying which may have had a knock on effect on the industry.

Hong Kong which finances some Chinese industry is also believed to be using financial muscle to exert pressure on the Chinese Government following the pro-democracy massacre in Tiananmen Square.

The shortage follows a period when the price of basic steel hexagon nuts had steadily fallen.

UK NEWS

STC to shed 700 workers at two south-east plants

By Terry Dodsworth, Industrial Editor

STC, THE UK electronics group, is to make 700 workers redundant in a rationalisation caused by the shift from telecommunications product manufacturing to increased emphasis on software and services.

Two sites, New Southgate in North London and Basildon in Essex, will be affected. Most of the jobs will be lost at New Southgate, where 600 manufacturing employees out of a total workforce of 2,000, are to be made redundant.

A further 100 workers from a staff of 550 will lose their jobs at Basildon.

STC's move follows a wave of rationalisation in the British electronics industry this year as companies have responded to the steady decline in manufacturing content in their products. The rapidly increasing use of components, such as microchips and fibre optic cables, means that production lines use less space than in the past and demand fewer workers to operate them.

Those trends were behind a decision by ICL, the computer-manufacturing subsidiary of STC, to launch a similar reorganisation in March this year. Closure of the company's two Letchworth plants in Hertfordshire resulted in 500 redundancies, as manufacturing was concentrated at Ashton-under-Lyne in Greater Manchester, and Kidsgrove, near Stoke-on-Trent.

Ferranti, one of the UK's leading defence electronics groups, has also announced a wide-ranging rationalisation this year with the closure of its civil computer manufacturing plant near Manchester.

Other restructuring moves have occurred at Racal, the defence and telecommunications group, and GPT, one of Britain's leading telecommunications companies, which announced 700 job losses at its plant in Aycliffe, County Durham, in July.

Several of those companies will benefit from the reorganisations as spare land is released for redevelopment. It is expected, for instance, that STC will be able to redevelop about 32 acres at its New Southgate plant, valued at approximately £30m.

STC said yesterday it would be concentrating its manufacturing resources in future at its Monkstown plant in Northern Ireland and Treforest, in South Wales, both of which benefit from lower production costs than the south-east of England.

Parts of the New Southgate and Basildon sites will be maintained for development and pre-production work, strategic planning and procurement.

The company emphasised that, in spite of the closure, its order book in telecommunications is continuing to rise. The orders derive largely from the company's new high-speed transmission systems, which are replacing its output of the older generation of equipment.

Optimism in business improving, IoD says

By Alan Pike

GENERAL OPTIMISM about the economy has increased among business leaders during the summer although their main concern is still insufficient demand, according to an Institute of Directors survey.

Mr Peter Morgan, the institute's director-general, said the survey results indicated that business had so far experienced a gradual deceleration of economic activity from the boom conditions of a year ago, rather than the hard landing that many had feared.

"In the light of these figures, we can see nothing in the present situation which should make the Chancellor change either his short-term monetary policy or his long-term fiscal stance of reforming the tax system through tax reduction to create a low-tax, high-growth economy."

The survey shows that 18 per cent of directors interviewed in August were more optimistic about the UK economy than they had been six months earlier. Another 29 per cent felt about the same.

In the institute's June survey, only 8 per cent were more optimistic. Exactly half those interviewed in August were less optimistic than they had been six months earlier, but that compares with the 64 per cent who had been less optimistic in June.

As to whether directors were more or less optimistic about prospects for their own companies, the survey discloses little change in thinking during the summer.

Of the sample, 46 per cent said they were more optimistic about company prospects in August, against 47 per cent in June. The ratio feeling less optimistic dropped from 28 per cent in June to 23 per cent in August.

Insufficient demand – which replaced labour supply as the chief business concern among directors at the time of the institute's April survey – is shown as a growing worry.

It was expected to be the main cause of concern during the next six months by 28 per cent of those interviewed, compared with 22 per cent in both June and April.

Fickle fashion kicks up a trend

Alice Rawsthorn on the recent resurgence of a 70s cushion-soled cult

THE SCENE is Solaris, a London night club, on a Sunday night. A young man is dancing to the house music that throbs out from the sound system. He is wearing a long T-shirt, loose track pants and a pair of brightly coloured boots called Kickers.

Kickers have become *the* shoe to wear in London clubs this summer. They were last popular in the late 1970s but fell from favour in the early 1980s. The current craze for house music – and the fashion for the sports clothes worn by New York street kids in Brooklyn and the Bronx – has made them fashionable again.

Pentland Industries, which holds the licence for Kickers in the UK through its Airbourne Footwear subsidiary, noticed a sudden surge in sales last autumn. It has been struggling to satisfy demand ever since.

The shoes originated in the France of the early 1970s, when a company called Ranauat introduced a new style of brightly coloured, soft-leather shoes and boots.

Kickers have since appeared in different designs in various countries. The British version has a leather "flower", emblazoned with "Kickers", tied to the left shoe; together with a red tab on the left foot and a green tab on the right.

In the late 1970s, Kickers were popular with the sheepish sort of students who wore dungarees and duffel coats.

By the mid 1980s the market had shrunk to the faithful few who bought Kickers, probably as a memento of their duffel-coated university days.

Last autumn, however, Pentland noticed that orders for Kickers were rising rapidly. The new orders came mainly from shops in London that had not bought Kickers before.

By this summer, Kickers had become a common sight on the London club dancefloors. *Aficionados* bought extra leather flowers so they could tie five or six at a time to their laces.

Kickers, selling for £40 or £50, have achieved the same cult status in London as high-performance sports shoes, or trainers, in New York.

As the summer progressed, Pentland – which is also a big shareholder in Reebok, one of the biggest US sports shoe companies – received new orders from the North, the Midlands and Scotland. Sales of Kickers are now three or four times higher than at the same time last year.

The immediate task has been to find enough Kickers to fill Pentland's bulging order books. Pentland has commissioned extra production from Morocco, where Kickers are made; but it has had difficulty securing sufficient supplies of raw materials and trimmings.

Pentland's principal concern is that the Kicker craze might well disappear as quickly as it began

Piracy is also a worry. As soon as Kicker sales started to rise, cheap "copycat" products came on to the market.

Pentland has stopped selling the extra leather flowers to prevent its competitors from buying them to pass off their fake Kickers as the real thing.

But the principal concern for Pentland is that the Kicker craze might disappear as quickly as it began.

The company is working on new styles and new colours to sustain demand, but the precedent set by Griggs, another British footwear firm, is far from reassuring.

Griggs has been making Dr Martens, the classic British working shoes, for decades. Two or three years ago, Dr Martens suddenly became fashionable.

The same shoes that had been sold to London construction workers for £20 were being snapped up at smart shops in Tokyo for £100.

Griggs boosted output to meet the sudden surge of demand – but the orders from the smart Tokyo shops have started to fall. Now Griggs has been forced to adapt to a new environment where Dr Martens are no longer quite so fashionable.

Investors paid compensation under scheme

By Richard Waters

CLIENTS of three failed investment firms have been paid compensation out of the Investor Compensation Scheme, set up almost exactly a year ago under the Financial Services Act.

In all, 257 clients of the firms – Bowers Cadle, E. J. Collins, and Greenan Investment Management – have received £865,542, an average of £3,368.

Most of the money (£608,902) was paid to clients of E. J. Collins, the stockbroking firm that went into liquidation in March.

More than 200 other clients of the three firms will also receive compensation once they return their claim forms. There is also a "significant number" of others whose claims are more complex or have been received only recently, according to the independent management company which runs the scheme.

Compensation covers the first £30,000 of a loss and 90 per cent of the next £20,000.

Lloyds Bank report backs idea of pollution tax

By Ralph Atkins, Economics Staff

FURTHER backing for taxes on pollution-generating products comes today in a report published by Lloyds Bank.

A report by Mr Patrick Foley, deputy chief economic *adviser at the bank, suggests* labelling and taxing goods according to the amount of environmental damage their production or consumption caused.

The report follows a government study published last month by Professor David Pearce, special adviser to Mr Chris Patten, Environment Secretary, which proposed "pollution" taxes to preserve the environment.

The Lloyds Bank report says pollution taxation would correct, rather than create, market distortions. It would mean the price of goods reflected their environmental cost and would encourage research into methods of reducing pollution.

Taxes could be placed on goods such as electricity, chemicals and pharmaceuticals, which generate pollution in their manufacture, as well as goods that cause damage when consumed – such as petrol, chemical fertilisers and some aerosols.

Mr Foley says VAT could be cut to compensate for the extra revenues from pollution taxes. That would, he suggests, also reduce the inflationary implications.

Pollution taxes should be made obvious to the consumer and easy to understand, he says. By levying taxes at the consumption stage, the impact on the UK's competitiveness would be minimised because imports would be subject to the same penalty as domestically produced goods.

However, Mr Foley says, the adoption of such taxes by the entire European Community would be "greatly preferable."

Being economical with the environment. Economics Department, Lloyds Bank, 71 Lombard Street, London EC3P 3BS.

Doubt over electricity emissions clean-up

By Maurice Samuelson

BRITAIN'S £1bn programme to combat power station pollution is in doubt because of confusion over how to finance it after the electricity industry is privatised.

Work has started at only one power station, the 4,000 megawatt plant at Drax, North Yorkshire, accounting for only a fifth of the whole clean-up programme. No firm decisions have been taken about the work to be carried out at other big coal-fired stations to meet international deadlines.

Under an ambitious European Community plan accepted last year, the Government undertook that emissions of sulphur dioxide (SO2) should be reduced progressively over the next 25 years to only 40 per cent of the 1980 level by 2003.

The sulphur emissions are thought to cause widespread "acid rain" damage to forests and plant life in northern Europe and North America.

Britain's clean-up programme is the latest casualty of the prolonged impasse in negotiations between the electricity generating companies and the regional distributors about their trading arrangements after privatisation.

The same difficulties, centring on the contracts for bulk supplies from power stations, have already threatened to delay by at least six months the flotation in the 12 distribution companies of England and Wales and caused the old Magnox nuclear stations to be withdrawn from the sale.

It has also led to the shelving of the generators' plans for three large, environmentally clean coal-fired power stations.

The generating companies have told the Government that cutting contracts for power station output to a maximum of five years instead of 15 will give them insufficient time to underwrite the heavy cost of fitting flue-gas desulphurisation equipment to coal-fired stations.

Moreover, if the individual power station had to bear all the additional clean-up costs, as the Government currently appears to require, it might lose business to an older, unconverted power station, thereby defeating the whole purpose of the investment.

Several alternative ways of financing the clean-up programme have therefore been suggested. The generating companies say that since everyone will benefit from it, the electricity users should meet its cost.

That could be spread across the whole electricity industry by adding it to the cost of using the transmission system.

It is also suggested that the distributors would be obliged to buy the power from the sulphur-free plants in the same way that they will have to take supply from nuclear stations.

Above all, however, the Government is being urged that contracts of at least 10 years should be permitted for all the coal-fired power stations which would be modified to meet the clean up targets.

That is particularly attractive to British Coal, which is fighting to secure long-term guarantees for its market in the face of threats from cheaper imports.

Once the clean-up programme is clarified, it would lower the asset value of the power stations prior to their privatisation, but it would remove an important element of uncertainty for potential investors.

The Government, for its part, says that the whole issue is still subject to negotiation and that no decisions have yet been taken.

Drax power station, the only plant where large-scale anti-pollution work is in progress, belongs to National Power, the larger of the generating companies to be carved from the Central Electricity Generating Board.

PowerGen, its competitor, is expected to confirm in a month that it will instal de-sulphurisers at two of its biggest plants, including the 2,000 MW Ratcliffe station in the Midlands. However, no contracts will be let until it knows how they will be financed.

UK NEWS

Higher-education funding 'is down'

By David Thomas, Education Correspondent

PUBLIC SPENDING on higher education has fallen further in Britain in the 1980s than in almost all other industrialised countries, an independent study for the Organisation for Economic Co-operation and Development has concluded.

The unpublished study looks at changing patterns of finance in higher education across the OECD, the Paris-based group of industrialised nations. It was prepared by Mr Gareth Williams, Professor of Educational Administration at London University's Institute of Education.

The report is to be debated at a three-day conference starting today in Barcelona, jointly organised by the OECD and the Council of Europe.

Reviewing spending patterns in 13 OECD countries, the study concludes: "Countries where higher education has apparently had the least favourable treatment in recent years are Denmark, [West] Germany, the Netherlands and the United Kingdom."

Critics of the UK Government's policy towards the universities and polytechnics are likely to seize upon that conclusion.

However, other aspects of the 90-page report confirm arguments used by ministers to defend their policies, particularly on student loans.

The report cites figures showing that Britain has the most generous financial support for students of any country in the study, but that is coupled with low participation rates in higher education.

"The British system of relatively generous grants for all students on traditional higher education courses is not well suited to mass higher education," the report concludes.

Moreover, even after the recent financial squeeze, total spending per student in British universities is higher than in any other country, except in private US universities, the most prized sector of US higher education.

The report shows that most OECD countries have cut funds to higher education in the 1980s. Japan and Spain were the only countries to escape such cuts in the decade up to the mid 1980s. Only France and Finland are predicting increased public spending in the sector in the foreseeable future.

The study also points to widespread interest in introducing more private funds into higher education.

Scandinavian countries led the way in the recent introduction of student loans, although there are now fears that they might be deterring some potential students from higher education. There is a general desire for more business funding of higher education, although the report suggests that Britain has gone relatively far in this direction.

A paper prepared for the conference by the Council of Europe questions whether the US derives clear benefits from devoting a larger proportion of national income to higher education than most European countries.

However, it also notes there are few reliable comparative figures on higher education, although it costs almost $100bn (£64bn) a year in the US and a similar amount in Europe.

DIY retail sector 'faces slowdown in growth rate'

By Maggie Urry

A GLOOMY outlook is predicted for do-it-yourself retailers, suggesting that the DIY market growth rate will slacken after the rapid expansion in most of the 1980s.

The report, by economic forecaster Staniland Hall, suggests that DIY spending has been boosted by rising owner-occupation, particularly through council house sales. It expects the growth rate in the DIY market to fall to 16 per cent in the seven years to 1994, compared with 25 per cent in the previous seven years.

"A crunch must come sooner or later in the fast-growing DIY retail sector," Staniland Hall says, adding that it is probable in the early 1990s.

The leading retailers have achieved growth rates faster than the market as a whole, aided by acquisitions. It is expected to slow down, however, and the six largest retailers are likely to see their sales growth converging with that of the sector as a whole.

The Do-It-Yourself Market to 1994. From Staniland Hall Associates, P O Box 643, Aldenbury House, Upton Park, Slough, SL1 2UJ. Price £125.

Market research services up 8% last year

By Christopher Parkes, Consumer Industries Editor

UK SALES of market research services grew by 8 per cent in real terms last year, continuing the strong expansion since 1982, according to the Association of Market Survey Organisations.

Growth has been helped by increased demand among companies other than consumer goods manufacturers – traditionally the principal users of the service.

Non-consumer research accounted for 60 per cent of turnover last year against 48 per cent in the early 1980s.

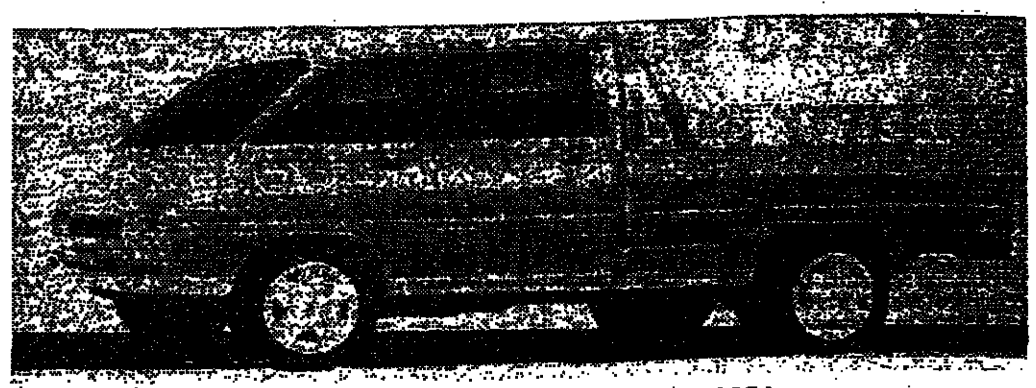
Combined turnover of the association's 31 members rose to £206m last year, accounting for about three quarters of the industry's sales.

Food and soft drinks manufacturers formed the biggest single client group, paying £32.5m during the year to investigate the rapidly changing habits, demands and lifestyles of consumers.

However, television and other media companies came second, with £20m. Government clients spent £8.2m.

Most surveys among consumers were devoted to market measurement, developing and testing products and monitoring advertising, while most non-consumer work studies the retail and wholesale trade.

AMSO Handbook 1989/90. AMSO, Ince House, 60 Kenilworth Road, Leamington Spa, Warwickshire CV32 6JY.



The TJ135 design: first non-European contract for designer MGA

Car designer wins China deal

By Richard Tomkins, Midlands Correspondent

MGA DEVELOPMENTS, a vehicle design and engineering company based in Coventry, West Midlands, is working on what is believed to be the largest vehicle design project awarded by China.

It is being paid $12m (£7.69m) by the Tianjin Automotive Industrial Corporation of China to design and put into production a multi-purpose, 1½-tonne truck, the TJ135.

China's decision to commission a design marks a significant break with tradition. Most vehicles made in the country have been variations of Western models, manufactured under licence.

Production of the TJ135 is due to start in February 1991 at a new plant in Tianjin, 75 miles south-east of Peking. The makers are aiming for an output of 60,000 units a year. The vehicle will be based on the chassis and engine of the TJ130 truck, a 20-year-old design in production at Tianjin.

The MGA project includes styling and engineering the vehicle body and interior; producing of a prototype; manufacturing tooling, assembly and inspection equipment; and helping with plant layout.

The contract is MGA's first outside Europe and was won in the face of fierce competition from Marubeni, the Japanese trading house, which planned to put the work out to its associates.

MGA, formed in 1979, is a relative newcomer to vehicle design and engineering and is small compared with better-known companies such as Hawtal Whiting, of Basildon, Essex, and International Automotive Design, of Worthing, Sussex.

Since 1985, however, when it invested heavily in computer-aided design equipment and moved to its present site in Coventry, the number of people it employs has risen from 30 to 260 and annual turnover has grown to £8m.

Mr Michael Gibbs, chairman, said most of the company's body styling work involved designing variations of existing models for companies such as Ford, Volvo, Jaguar, Rover, Leyland-DAF, BMW and Land Rover.

"Most of the major manufacturers still have the in-house capability to design and engineer a car, but they don't have the capability to do several concurrently," he said.

Little boost to jobs seen in single market of 1992

By Alan Pike

GAINS IN employment as a result of the change in the EC to a single market in 1992 are likely to prove "rather modest," according to a report by the Employment Institute.

The report – by Paul Geroski and Jonathan Haskel, economists in the London Business School's Centre for Business Strategy – is contained in the institute's latest economic study. It says estimates of medium-term community-wide employment growth are in the range of 1.8m-5m jobs.

Such gains, it says, are small when set against Europe's working population of more than 140m, and would reduce the EC's unemployment rate by only 1-2 per cent.

The single market, the authors say, is unlikely to bring about big changes in the employment structure of the UK. Any reductions in production costs and expected economies of scale resulting from the expanded European market were likely to be small.

Dr John Philpott, director of the Employment Institute, said yesterday that when delegates to this week's TUC conference in Blackpool and the political party conferences this autumn debated 1992, they would be wise to ignore the "hype and rhetoric" and consider instead the more sober view presented in the report.

While the UK had to be prepared for the single market through investment in capital, research, development and training, there was a need to be wary of claims that 1992 proposals alone would result in a transformation of industry.

BA to encourage travel voucher scheme

By David Churchill, Leisure Industries Correspondent

THE AIR MILES holiday flights promotion introduced last year by British Airways is being rejuvenated by the relaunch of BA's Super Shuttle today to leading UK cities.

BA is giving passengers 50 free Air Miles vouchers for each of their first three journeys on the new Super Shuttle Executive service, followed by 100 vouchers for every subsequent domestic Shuttle flight taken, up until the end of October.

The move is aimed not only at helping the fortunes of the Air Miles scheme but also to make BA's Shuttle service more competitive in the important business travel market.

BA's decision to offer vouchers for customers on its flights reflects determination to help the promotional scheme.

Air Miles was launched last Autumn by BA through a 51 per cent-owned company, Air Miles Promotions. It followed BA's concern that, along with most leading airlines, it had several million unsold seats each year on its international passenger network.

The scheme is similar to the Green Shield stamps scheme popular in the UK in the 1960s and early 1970s. The aim is to encourage consumers to shop with particular stores or use specific services.

Companies pay between 6p and 9p to Air Miles promotions for each voucher and then give them to customers according to how much they spend.

The Sketchley dry cleaning outlets, for example, give one voucher for every £5 spent; Shell gives one for every £5 worth of petrol bought; while National Westminster Bank's Access, Visa, or MasterCard users get one voucher for every £10 spent with their credit card.

When consumers have collected sufficient vouchers they can exchange them a BA return air ticket to virtually anywhere in the world. A return trip to Paris requires 450 Air Miles, New York 6,800 miles, and Sydney 20,000.

The scheme, however, has been criticised for offering too little for consumers. Marketing experts have suggested that the large number of purchases needed to pay for flights discourages many shoppers from collecting them.

Buying a £13,000 MG Montego car from a participating dealer, for example, would only qualify for two return tickets to Paris. Alternatively, a shopper would need to spend £68,000 on an Access card to qualify for one return ticket to New York.

Mr Keith Mills, managing director of Air Miles Promotions discounts such criticism: "We have nearly 100 companies with 15,000 outlets participating in the scheme and our research shows that some 3.6m consumers are currently collecting Air Miles," he said.

More than 4,000 airline bookings have been made with Air Miles vouchers since its launch. The present rate of bookings runs at 600 a week.

Some 700m Air Miles have been given away through retailers, with a further 600m in circulation from consumer promotions such as a competition run by Cadbury's Eclairs chocolate brand in conjunction with Woolworth's.

Last week Thomson Holidays decided to accept Air Miles vouchers for part payment of any of its brochure holidays. Poundstretcher, BA's own holiday company to long-haul destinations, already accepts the vouchers in part payment.

Mr Mills acknowledges that the scheme still has some way to go to become established. "It took Green Shield six years to get off the ground in the UK, so I think we're not doing too badly so far," he says.

He believes that the scheme will develop a "critical mass" of sufficient collectors later this year to become profitable for BA.

By then, however, Air Miles may face competition from other similar promotions. Norfolk House Group, a USM-listed company, has launched a Holiday Points scheme aimed at providing incentive schemes for discounts off holidays.

A

UK NEWS

Overseas competition for council tenders 'will grow'

By Richard Evans

LEADING French, Dutch and Spanish companies are likely to be serious challengers for council services such as refuse collection put out to tender, according to a report published today by the Association of London Authorities.

So far, local authority direct labour organisations have won most of the contracts for refuse collection and street cleaning put out to tender in London and the rest of the country.

However, most ALA members and large authorities such as Sheffield, York and Southampton have been approached not just by local bidders but by overseas companies, including Sitaclean Technology and Cory Onyx of France.

Cory Onyx has won a £2.2m refuse contract in Bromley, Kent, and a £1.5m refuse and street cleaning contract in Tower Hamlets, London. Sitaclean has the £866,000 a year refuse collection contract in Erewash, Derbyshire.

The ALA publication provides local authorities with details of the Continental competitors and a history of their involvement in municipal contracts in their own countries.

Six council services, including refuse collection, street cleaning, vehicle and grounds maintenance, and school meals, must be put out to compulsory competitive tender by all councils in stages during the next two years.

Mr Len Turner, vice-chairman of the ALA, said yesterday that as the second round of tendering was completed for the phase that is to begin in January, and as further rounds opened, it was increasingly likely that more and more authorities would find themselves dealing with a number of Continental competitors on the tender list.

"This guide will be a crucial starting point for assessing the competition and recognising the European challenge," he said.

The Continental Challenge: European competition for local authority services. ALA, 36 Old Queen Street, London SW1H 9JF. £5.

Big rise in satellite TV sales

By Raymond Snoddy

SALES OF satellite television receiving equipment surged last month, in spite of the holiday season and unusually hot weather.

According to the FT Satellite Monitor, the total number of satellite dishes installed rose by 33,000 – the largest monthly increase since the monitor began six months ago.

The best estimate now is that 160,000 British homes can directly receive satellite channels such as Mr Rupert Murdoch's Sky Television, MTV or W. H. Smith's Screen Sport, apart from those receiving them via cable networks.

The latest monthly research carried out for the Financial Times by Kennington Research does, however, suggest that the total market for satellite television – those who say they will definitely or probably instal equipment – is declining as some of the "probables" decide against.

About 4.5 per cent of the population say they will definitely get satellite television – 988,000 homes. That represents a slight increase on the April figure.

The percentage of the population who say they will probably instal satellite receivers has declined from 15.7 per cent in April to 10.8 per cent in August – 2.3m homes.

Mr John Clemens, managing director of Kennington, which is being merged with a new company, Continental Research, said: "This kind of trend probably reflects growing awareness of what is on offer and of the likely cost and is a result of those in the middle market making up their minds."

About a third of the potential market said they did not know when they would instal satellite receivers.

Of the remainder, only one in four said they would move by the end of December and the rest, 73 per cent, said some time next year.

Allowing that not everyone buys products when they say they will, that suggests a total installed base of 430,000 dishes by the end of the year.

The main two reasons given for delaying installation are the cost and lack of knowledge of what is available.

Only 16 per cent cite waiting for British Satellite Broadcasting as the main reason for delay. BSB – which has Pearson, publisher of the Financial Times as a shareholder – says it plans to launch its five channel satellite service "in the spring."

Only one in 10 said they were delaying because of poor quality of the programmes.

Just as the June figure for television satellite installations was swollen by 10,000 dishes given away by the Today newspaper, so the August figures include sales from the Sun's "100,000 sale-or-return dishes" campaign and the News of the World's "50 per cent off" promotion.

Last week Sky Television announced a £21m advertising campaign behind a subscription package which will offer all the necessary equipment and four channels for £4.49 a week.

Market research, based on a sample of 4,136 adults located 10 homes with large satellite dishes and 23 with the 60cm dishes needed to get Astra channels such as Sky.

Because of the small numbers involved the estimate of 160,000 homes that can directly receive satellite transmissions is subject to a margin of error of plus or minus 25,000.

The strongest interest in satellite television is among the under-44s but the market is spread fairly evenly across the UK.

The concept is most popular among skilled workers but professional and managerial homes are not far behind.

The full FT satellite monitor is available from FT Market Research, price £185.

N Sea oil platform shut down after 'kick'

By James Buxton, Scottish Correspondent

A NORTH SEA oil platform was shut down yesterday and its non-essential personnel evacuated after a high-pressure "kick" was encountered during drilling.

Some 113 men were evacuated from Amoco's North West Hutton platform, which lies about 90 miles northeast of Shetland, leaving 75 essential personnel on board. No one was injured and there was no explosion.

One of the platform's drilling derricks was drilling a development well when the drill yesterday morning encountered an unexpected zone of high pressure gas. Although this caused a series of heavy vibrations, a possible blow-out was averted by swift closure of the blow-out preventers – valves that block off the flow of oil and gas from the well.

Production on the platform, which normally runs at between 19,000 and 20,000 barrels of oil and gas per day, was shut down. In accordance with Amoco company policy, non-essential personnel were evacuated to nearby platforms.

An Amoco spokesman said it was not known when production would resume.

D. C. Thomson ends printing in Manchester

D. C. THOMSON, the Scottish publisher, yesterday announced a £50m reorganisation of its newspaper production facilities.

The restructuring means the closure of the company's printing facilities in Manchester with the loss of 135 jobs. At present the company employs a total of 2,750 people.

It will make colour available to the firm's publications, which include The Sunday Post, The Weekly News and the Dundee Courier and Evening Telegraph.

Printing in Manchester has been slowly run down in recent years to allow retirement and natural wastage to minimise redundancies.

Exchange's paperless trading plan worries listed companies

By Richard Waters

LISTED companies expressed fears about the Stock Exchange's planned paperless trading system for the first time last week.

Concern surfaced at the meeting of the Investor Relations Society late last week, which heard representatives from the exchange explain how the system will work.

Listed as being present were more than 100 representatives of leading companies which included British Telecom, Imperial Chemical Industries, National Westminster Bank and Marks and Spencer.

Companies are worried that the long-awaited automated settlements system, Taurus, will make it more difficult and expensive for them to identify who owns their shares.

"There was very widespread dissatisfaction," said one representative at the meeting. "People felt very concerned."

Another said: "People could see nothing for companies except increased cost and the same, or marginally worse, service."

At the heart of the fears is the exchange's plan to extend its nominee system, currently restricted to market makers, to cover all users of the market.

All shares traded in the market would be registered in the name of one of the so-called Taurus Account Controllers, which will include banks, brokers and other institutions.

Under present plans, companies will be given information about the holdings of these TACs once a fortnight. They will only get information about the underlying shareholders once every two months but will be able to request it more often.

Companies fear that by issuing a request they will signal to the market that they fear a hostile bid. "It would be too easy to start a rumour," said Mr Terence Jagger, head of investor relations at Burmah Oil.

Another, who declined to be named, said that the volume of requests would put too much strain on the system.

The exchange sought to counter the fears by emphasising that its plans are still at the design stage. It also pointed out that a representative of listed companies sits on the committee responsible for the development of Taurus.

However, companies are afraid there will not be enough time for proper consultation. Experts say that to meet its scheduled introduction by the end of next year, full specifications for Taurus will need to be produced before the end of this year. That leaves companies fearing they will be presented with a *fait accompli*.

Prince plans community 'army'

Financial Times Reporter

PRINCE CHARLES plans to create a volunteer community army of at least 10,000 young people between the ages of 16 and 25 working on projects such as helping the handicapped and reclaiming derelict land.

Details of the scheme, drawn up after months of consultations with Cabinet ministers, Labour Party and trade union leaders, are scheduled to be announced in the spring next year.

The project, to be organised by the Prince's personal charity, the Prince's Trust, would aim to attract 10,000 young people initially, rising to as many as 100,000 as it becomes more established.

The Prince's idea is that those in work would be paid by their employers and allowances would continue to be claimed by those on youth training schemes.

Students would also continue to draw their allowances and others could be supported by funds raised by local businesses. Young people on the scheme would work full-time for three months.

Advisers to the scheme are likely to be Sir Richard O'Brien, former chairman of the Manpower Services Commission, and Sir John Cassells, director general of the National Economic Development Office.

Prince Charles: plans a volunteer community army

The Sunday Times, which interviewed the Prince, said the scheme would provide a common experience for young people of different backgrounds and put right "the damage done to the sense of community within society by a social philosophy too narrowly based on individualism."

Age trends behind high pay rises, survey says

By Jimmy Burns, Labour Staff

FRESH EVIDENCE of the extent to which UK demographic trends are contributing to pressure for higher pay settlements emerges today with the publication of two reports on the pay of clerical and manual staff.

The reports, carried out by the Institute of Administrative Management and Reward, the pay and employment research group, found that companies are having to award higher pay increases to retain and recruit a diminishing number of young people entering the labour market.

One report was based on surveys of pay to over 250,000 employees ranging from a canteen assistant to a senior office technician during the period January to June 1989.

While the average annual increase recorded for these staff was between 7.7 per cent, skilled and semi-skilled 17-year-olds were getting pay increases of up to 14 per cent.

Another report detailing salaries being paid to over 30,000 clerical and administrative staff at 227 offices at April 1 1989, found that novice and basic office clerks below the age of 18 had been getting pay increases of 10-15 per cent.

The surveys confirm continuing wide regional differentials in pay rates. For clerical staff, the six highest-paying regions (all in the south-east) have moved ahead of the national average by 1.3 per cent, while the six lowest regions (all in the Midlands, the north, the south-west and East Anglia) have moved behind the national average by 1.6 per cent.

One of the surveys also found that 34 per cent of companies have their manual workers on a basic 39-hour week, while 19 per cent are still on 40 hours and 18 per cent have moved to 37.5 hours. Only 7 per cent worked 35-hour weeks.

Clerical & Operative Rewards; Office Trend Report 1989.(£70 and £25 respectively.) The Reward Group, Reward House, Diamond Way, Stone Business Park, Stone, Staffs ST15 0SD.

CONSTRUCTION CONTRACTS

Chelmsford shopping facilities

Work on four contracts in Chelmsford, Harlow and Saffron Walden, together worth over £9m, has been started by EMSON EASTERN.

The largest, at over £6.5m, is at Riverside Park, Chelmsford. The scheme, for Citygrove Developments, is for the construction of a retail park. The year-long project has just started.

Another of the contracts is also in Chelmsford. It is a joint Emson Developments/Chelmsford Borough Council scheme and will provide offices at Regina Road.

Building offices in Sydney

The newly-established Australian office of BOVIS INTERNATIONAL has been appointed project manager for a £12m contract to build an office and retail development in Sydney for P&O Australia. It is hoped that construction will start in late 1989.

The 14-storey building will provide 100,000 sq ft of offices with 2,600 sq ft of retail space at ground level. A Krupp system will provide parking for 30 vehicles at basement level.

The external appearance is designed to blend with the environment and the historic facade on the Sussex Street elevation will be retained and restored. The retail area will consist of aluminium and glass with masonry elements faced in polished reconstituted granite. The new facade will be of precast concrete panels faced with polished reconstituted granite. Windows will be glazed with Austint grey glass.

£50m Sellafield project

Sir Robert McAlpine & Sons has been awarded a contract worth over £50m by British Nuclear Fuels for the main building and civil engineering works on the second medium active solid waste encapsulation plant (MASWEP EP2) complex at Sellafield.

The contract covers the construction of an encapsulation building for intermediate level waste, a services building, cement silos and a grout washing building. The three-storey encapsulation building, measuring 120 metres x 60 metres, will be housed within an envelope structure on foundations already prepared by Sir Robert McAlpine & Sons under a previous contract.

Construction will be of heavily reinforced concrete walls and suspended floors supported on heavy structural steelwork - all to seismic design. Stainless steel linings will be applied to the walls and floors of the process areas and externally walls above a level of six metres will be clad in insulated aluminium faced cladding panels.

The services building, which will be of structural steel-frame construction, will contain changing rooms, refreshment areas, plant rooms and the main distribution centres for the building services.

The contract includes the installation of four EOT construction cranes and plumbing within the services building.

The EP2 encapsulation plant at the Sellafield nuclear fuel recycling plant in West Cumbria is part of a further £500m investment in waste management and treatment by BNFL which will result in the already drastically reduced low level liquid discharge from the site reaching a "virtually zero" status by the early 1990s.

Work, due for completion in July 1991, is being carried out under the direction of BNFL.

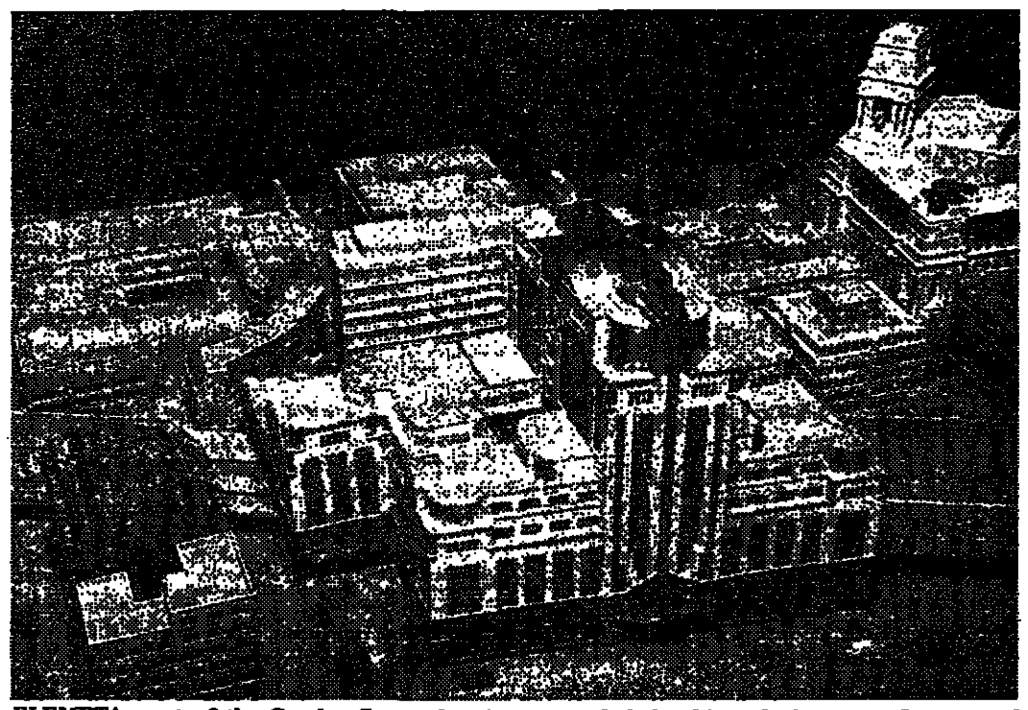
Refurbishing the Royal Academy

BOVIS CONSTRUCTION, a P&O company, has been awarded a £4m management contract to extend and modernise the Royal Academy of Arts in Piccadilly, bringing the galleries up to international standard and easing the movement of visitors around the historic building. Work begins shortly. Public areas will not be closed and the exhibition programme will continue.

A ticket office, cloakroom and ladies toilets will be built in the entrance foyer of Burlington House. The Diploma Galleries on the second floor will be refurbished and reroofed. Some present features, like the tiled floor, and the three-inch thick doors, will be stored. A 4,000 sq ft temporary roof wil be erected over the Galleries.

The work should be completed by September 1990.

Fenchurch Street station development



ELEMETA, part of the Conder Group, has been awarded the £11m design, manufacture and construct contract for bespoke curtain-walling on a development based at Fenchurch Street station, London EC3. The steel and aluminium wall panels will be clad in granite.

APPOINTMENTS

Management changes at Northern Foods

■ Mr Tony Hughes has been appointed managing director of NORTHERN FOODS' grocery group, which includes the Fox's and Elkes biscuit companies and the canning and fruit juice operations of Batchelors (Ireland). He has been a director of Northern Foods since 1986 and was formerly managing director of the company's convenience foods group.

Mr David Sims succceds Mr Hughes as managing director of Northern's convenience foods group. He also joins the executive committee of Northern Foods. Mr Sims was previously managing director of Bowyers (Wiltshire), a member of the Northern Foods' meat group.

Mr Matthew Gribben, a director of the convenience foods group, becomes managing director of Bowyers.

■ At J.P. MORGAN Mr Gerard G. Cameron II, vice president, has been named head of personnel for the London office. Mr Cameron, previously general manager of Morgan's Italian offices, succeeds Mr C. Dixon Kunzelmann, who has relocated to New York to head personnel for the bank's worldwide securities group.

■ PRUDENTIAL PORTFOLIO MANAGERS — the investment management arm of Prudential Corporation — has appointed Mr Michael Denham as global fixed interest director. He was formerly the fixed interest director of Morgan Grenfell International Fund Management.

■ REDMAN FISHER ENGINEERING, the West Midlands-based manufacturer of industrial flooring, has appointed two directors: Mr William Farnell becomes production director and Mr Barry Trubshaw is promoted to sales and marketing director. Mr Farnell was production manager and Mr Trubshaw was UK sales manager. Redman Fisher is a member of the Wolverhampton-based C.I. Group.

■ Mr Christopher Brown, Mr Daniel Cohen, Mr Paul Hewitt and Mr Gerard Strahan have been made directors of EUROMONEY PUBLICATIONS. All four are executives of the company. Mr Brown is senior vice-president of Euromoney Inc based in New York, Mr Cohen is publisher of Asiamoney based in Hong Kong. Mr Hewitt is financial director and company secretary and Mr Strahan is director of business development. Mr Padraic Fallon has become chief executive of Euromoney Publications and Mr Richard Ensor deputy chief executive.

■ DCI, the Scottish property development group, has appointed Mr Alistair W. Coutts as project management and development director. Mr Coutts was project co-ordinator for the Mass Transit Railway Corporation in Hong Kong.

■ ADAM & CO has made the following appointments to the board of its investment management subsidiary, Adam & Company Investment Management: Mrs Jill Staite and Mr James Montgomery join from the private client department of N.M. Rothschild Asset Management.

Mr John Dawson (above) has been appointed operations director of CIM INTERNATIONAL, the Hampshire-based food group. He was previously managing director of Ess-Food Danepak, the Danish-owned UK bacon and food product processor, packer and distributor.

■ LONDON AND BISHOPSGATE INTERNATIONAL INVESTMENT MANAGEMENT has appointed Dr Christopher Adcock as director of quantitative investment research. He was previously head of technology for County NatWest Investment Management.

■ Mr Allan Capp has been made manufacturing director at NORTHERN RUBBER. He was previously general works manager of the United Kingdom Optical Company.

DIARY DATES

FINANCIAL

TODAY

COMPANY MEETINGS-
Excalibur Grp., Excalibur House, Park Lane, Birmingham, 11.00
First Technology, Fleet Mill, Minley Road, Fleet, Hants., 10.00
Palmerston Hldgs., Connaught Rooms, Great Queen Street, W.C., 10.30
Reed Executive, 114, Peascod Street, Windsor, Berks., 3.00
Zetters Grp., Clerkenwell Conference Centre, Clerkenwell Green, E.C., 10.00

BOARD MEETINGS-
Finals:
Cantors
Johannesburg Cons. Inv.
Interims:
ASW
Booker
Bowater
Cons. Venture Tst.
Cooper (Alan)
Durham (D.G.)
Emess
Hellis Homes & Gardens
Lilleshall
Linread
Pacific Assets Tst.
Porvair
Paloc
Ramco Oil
Technology Project Services
Unidare
Wilkes (James)

DIVIDEND & INTEREST PAYMENTS-
Betterware Consumer Products 3.75p
Broad Street Grp. 0.8p
Colorcoll Grp. 4.66p
Gopeng Berhad 10sen
Harris (Philip) 3.8p
Latinvest 10¼% to 11¼% Stepd. Int. Mtg. Db. 2012 5⅛pc.
M & G Dual Tst. 23.2p
Meyer Int. 11p
Scottish & Newcastle Breweries 7.73p
Staklo 0.71p
Stanco Exhibition Grp. 1p
Sturge Hldgs. 6p
Tinsley Robor 1.30p
Wace Grp. 1.75p
Wiggins Grp. 6p

TOMORROW

COMPANY MEETINGS-
Birmingham Mint, Birmingham Botanical Gardens, Westbourne Road, Edgbaston, Birmingham, 12.00
NMC Grp., Honourable Artillery Co., Armoury House, City Road, E.C., 12.00

BOARD MEETINGS-
Finals:
Adscene
Peters (Michael)
Interims:
ADT
ASDA Props.
Avonmore Foods
Beattie (James)
Brammer
CRH
EW Fact
Eadie
Fairey
Gowrings
Hestair
Home Counties Newspapers
IMI
Isotron
Lopex
Metal Closures
Olives
Pearl
Peek
Pentos
Pickwick Grp.
Provident Financial
Robinson Bros.
Ropner
Sedgwick Grp.
Severfield-Reeve
Systems Reliability
Taylor Woodrow
Tozer Kemsley & Millbourn
WSP Hldgs.
Wyevale Garden Centres

DIVIDEND & INTEREST PAYMENTS-
Bowater Inds. 9¾% Bds. 1992 4⅞pc.
Enserch Corp. 20cts.
Gillette 24cts.
Israel (Jack L.) 0.465p
Lockheed Corp. 45cts.
Palmerston Hldgs. 5.75p
Rockwell Int. 18.5cts.

WEDNESDAY SEPTEMBER 6

COMPANY MEETINGS-
Baspak, Bergen Way, North Lynn Ind. Estate, King's Lynn, Norfolk, 11.30
Compco Hldgs., 35, Cock Street, W., 12.00
Empire Stores (Bradford), Victoria Hotel, Bradford, 12.00
Firth (G.M.), Cedar Court Hotel, Wakefield, 11.45
Hicking Pentecost, Royal Hotel, Wollaton Street, Nottingham, 12.00
London Securities, Mill Ride Estate, Mill Ride, North Ascot, Berks., 11.00
Priest (Benjamin), National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, 2.15

BOARD MEETINGS-
Finals:
Black (Peter)
Interims:
American Tst.
Anglo American Gold
Bank of Nova Scotia
Blue Circle
Bunzl
Conder Grp.
Corton Beach
Croda Int.
Edinburgh Fund Managers
Hambro Countrywide
Hillsdown
INSTEM
Mecca Leisure
Nurdin & Peacock
Paragon Comms.
Quicks
Stat-Plus
Sun Alliance
T & N
Telemetrix
Wereldhave
Williams Hldgs.
Wimpey (George)

DIVIDEND & INTEREST PAYMENTS-
BFG Finance Fltg. Rate Nts. 1996 $249.17
Bank of Greece 10¾% Ln. 2010 5⅜pc.
Barclays Overseas Inv. Gtd. Fltg. Rate Nts. 2004 $268.33
Bullough 1.75p
Countryside Properties 1.3p
Croda Cosmetics & Toiletries 7½% Un. Ln. 1987/92 3¾pc.
Dares Estates 8% Un. Ln. 1992/97 4pc.
[illegible] Dual Inc. Tst. 2p
Gill 7¼% Un. Ln. 1988/91 3⅝pc.
Joseph (Leopold) 8½% Un. Ln. 1997/2002 4¼pc.
Waddington (John) 10½% Db. 1990/95 5¼pc.
Whitbread & Co. 8¾% Rd. Db. 1991/96 4⅜pc.
Yorkshire Chemicals 10% Db. 1991/96 5pc.

THURSDAY SEPTEMBER 7

COMPANY MEETINGS-
Bulmer (H.P.), Cider Mills, Plough Lane, Hereford, 2.30
Cardo Engineering, Queens Hotel, Leeds, 4.00
Daejan Hldgs., CBI, Centre Point, New Oxford Street, W.C., 12.00
Fitch Lovell, Plaisterers Hall, 1, London Wall, E.C., 3.00
Fletcher King, Stratton House, Stratton Street, W., 12.00
Mt. Hldgs., Savoy Hotel, Strand, W.C., 12.00
THORN EMI, London Marriott Hotel, Grosvenor Square, W., 11.30
Tops Estates, 77, South Audley Street, W., 11.00
Whinney Mackay-Lewis, Royal Institute of British Architects, 66, Portland Place, W., 3.00
YRM, 24, Britton Street, E.C., 11.30

BOARD MEETINGS-
Finals:
China & East Inv.
Connaught Syndicate
[illegible]
Tweedledale Intl. Collieries
Interims:
AMEC
Burmah
Cameri Int.
Cannon Street Invs.
Enterprise Oil
Friendly Hotels
Gibbs & Dandy
Harlanne
Int. Business Comms.
PE Int.
Parkdale Hldgs.
Pavilion Leisure
Polly Peck
Portals Hldgs.
Reckitt & Colman
Senior Eng.
Singer & Friedlander
Tyne Tees TV
Wilson Bowden

DIVIDEND & INTEREST PAYMENTS-
Anglian & Overseas Tst. 1.8p
Barclays Bank 7¼% Un. Cap. Ln. 1986/91 3⅝pc.
Cardo Engineering 4.65p
Cons. Gold Fields Gtd. Fltg. Rate Nts. 1995 £180.38
Daejan Hldgs. 14p
Morris Ashby 2.4p
Prudential Corp. Fltg. Rate Nts. 1996 £356.87
Robertson Grp. 2.7p
Sainsbury (J) 7¼% 1st Mtg. Db. 1987/92 3⅝pc.
Sweden (Kingdom of) 8⅞% Bds. 1993 4⅞pc.

FRIDAY SEPTEMBER 8

COMPANY MEETINGS-
Goode Durrant, Strand Palace Hotel, Strand, W.C., 11.00
Joseph (Leopold), Haberdashers' Hall, Staining Lane, E.C., 12.15
Marling Inds., Charing Cross Hotel, W.C., 12.00
North of Scotland Inv., 10, Queens Terrace, Aberdeen, 12.00
Siebe, Savoy Hotel, Strand, W.C., 12.00

BOARD MEETINGS-
Finals:
Northern Ind. Improvement Tst.
Second Alliance Tst.
Interims:
Abbeycrest
British Dredging
Eye (Wimbledon)
McLaughlin & Harvey
Parry Grp.

DIVIDEND & INTEREST PAYMENTS-
Allied-Signal 45cts.
Anheuser-Busch 22cts.
Australia Inv. Tst. 0.5p
Bank of Ireland Und. Fltg. Rate Prim. Cap. Nts. $246.97
BankAmerica Corp. 15cts.
Boeing 35cts.
British Kidney Patient Assoc. Inv. Tst. 4p
Cardiff Property 0.75p
Chase Manhattan Fltg. Rate Nts. 2009 $342.78
Cowie (T.) 1.2p
Davy Corp. 6p
Dun & Bradstreet 50cts.
Flogas 4.121p
Gray Shipping 2.5p
Do. A N/Vtg. 2.5p
Hongkong & Shanghai Banking Prim. Cap. Und. FRN 2nd. Series $122.59
Lebowa Platinum Mines 5cts.
Lyons Irish Hldgs. 7.2p
Moorgate Inv. Tst. 5.6p
National Medical Enterprises 18cts.
Norfolk House Grp. 1.125p
North of Scotland Inv. 0.58p
Renold 7¾% 2nd Db. 1989/97 3⅞pc.
Rustenburg Platinum 165cts.
Sun Co. 45cts.
TNT 3.75cts.
Texaco Inc. Cap. 75cts.
Trans-Natal Coal 20cts.
Treasury 10% 2003 5pc.
Warner-Lambert 84cts.
Yeoman Inv. Tst. 5p

SATURDAY SEPTEMBER 9

BOARD MEETINGS-
Finals:
Equity & Law
Magnetic Materials

DIVIDEND & INTEREST PAYMENTS-
Houston Inds. 74cts.
IBM 121cts.
Travelers Corp. 60cts.
USX Corp. 35cts.

SUNDAY SEPTEMBER 10

DIVIDEND & INTEREST PAYMENTS-
Agricultural Mortgage Corp. 6⅞% Db. 1985/90 3⅜pc.
Grace (W.R.) 35cts.
Scott Paper 20cts.
Treasury 5½% 2008/12 2¾pc.
Utd. Technologies 45cts.

Trade Fairs and Exhibitions: UK

Current
Top Drawer Gift and Decorative Accessories Exhibition (until September 6) (01-727 1929)
Alexandra Palace

Current
International Autumn Fair (until September 7) (01-855 9201)
Olympia

September 5-8
International Carpet Fair (021-705 6706)
Exhibition Centre, Harrogate

September 5-8
Offshore Europe Exhibition and Conference (01-549 5831)
Aberdeen

September 10-13
International Menswear — MAB (01-437 8754)
Earls Court

September 12-14
Point of Sale, Merchandising and Display Exhibition and Conference (01-340 3291)
Business Design Centre, Islington

September 12-23
Antiques Fair (04447 2514)
Chelsea Old Town Hall

September 15-23
International Boat Show (0703 737311)
Southampton

September 17-18
DIY Trade Show (01-302 8585)
Earls Court

September 17-19
Gallery 89 - Framing and Fine Art Market (01-855 9201)
Olympia 2, London

September 18-22
International Handling & Storage Exhibition (0895 58431)
NEC, Birmingham

September 18-19
International High Definition Television Exhibition — HDTV (01-931 9985)
Tara Hotel, London

September 19-22
International Helicopter Technology & Operations Exhibition (01-549 5831)
Redhill Aerodrome

September 25-28
International Police Exhibition & Conference (01-446 8211)
Barbican, London

September 26-27
Independent Power Generation Conference and Exhibition - INPOWER (0737 768611)
Heathrow Park Hotel

September 27-October 1
Personal Computer Show (01-486 1951)
Earls Court, London

September 29-October 1
National Franchise Exhibition (01-727 1929)
NEC, Birmingham

Overseas Exhibitions

Current
International Autumn Fair (until September 9) (0375 392222)
Leipzig

September 4-9
Show of the Nations Exhibition (01-977 3474)
Vienna

September 13-14
Pre-Press Exhibition (0372 373161)
Copenhagen

September 13-17
International Fisheries Industry Exhibition (01-948 9900)
Nantes

September 14-24
International Motor Show — IAA (01-734 0543)
Frankfurt

September 17-20
International Hardware Show - QUOJEM (01-225 5566)
Paris

Sept 25-Oct 1
International Technical Fair (01-836 5219)
Plovdiv

Oct 2-6
International Robotics, CAD/CAM, Automation Engineering Exhibition - PRODUCTIQUE (01-225 5566)
Paris

October 9-14
International Fair for Instrumentation and Automation - INTERKAMA (01-794 0166)
Dusseldorf

October 10-14
International Anti Pollution, Environmental & Safety Technology Exhibition - IFEST (01-639 7265)
Ghent

October 12-15
International Languages, Translation & Cultural Communication Trade Fair (01-977 3474)
Vienna

Business and management conferences

Current
European Society for Opinion and Marketing Research 42nd ESOMAR congress (until September 7) (Amsterdam +31.20.6642141)
Stockholm

September 6
Tolley Conferences: Payroll manager's review third annual updating conference 1989 (01-680 5682)
London Press Centre

September 11
The Industrial Society: Annual hours — principles into practice (01-262 2401)
London

September 12
CBI Conferences: Pay and performance (01-379 7400)
Centre Point, London

September 13-14
Financial Times Conferences: World Motor (01-925 2323)
Hotel Inter-Continental, Frankfurt

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

MANAGEMENT

The exodus of oil companies from their generally disastrous foray into the metals and mining industry continues with Exxon's sale at the weekend of its holding in Les Mines Selbaie, a copper, zinc and precious metals mining complex in Canada. This follows only a few weeks after British Petroleum completed the disposal of most of its mining and minerals assets to the RTZ Corporation.

But the Selbaie deal also draws attention to the biggest exception to the rule – the Royal Dutch/Shell oil group. Exxon is selling its stake to the wholly-owned metals division of Shell, Billiton International Metals.

The question is: why is Shell not only holding on to Billiton but also building up its mining and metals interests when BP and Exxon would argue this is an opportune time to take advantage of current high metals prices and sell?

Jan Slechte, president of Billiton, readily admits that one of the options given serious attention by Shell at the time he took up the post early in 1986 was the break-up and sale of Billiton. The outlook was bleak and other oil companies had started to disinvest from metals and mining.

Billiton had been acquired by Shell in May 1970. For a time it did well; but then it suffered severely at the beginning of the 1980s in the long recession in the metals business. By the time Slechte jumped aboard the company was sinking under accumulated losses totalling more than $750m.

Shell, like the other oil majors, moved into mining and metals for what seemed very good reasons and proceeded to follow some very sound management theories when dealing with its new acquisitions.

The oil companies relied heavily on an incorrect economic forecast from the Club of Rome (a group of industrialists, scientists, economists, educators and statesmen from many countries) which, after an international study of world problems and prospects for the future made in the mid-1960s, painted a very rosy picture for commodity-based industries.

The Club suggested that resources were finite, that increasing demand would make commodities more scarce and that prices would have to rise. With the market growing by 5 per cent a year, more capacity would be needed and the market price would have to rise to meet the cost of that

Metals mining and processing

How Billiton climbed out of the pit

Shell's specialist division is digging deeper where other oil companies have quit. Kenneth Gooding explains why

capacity.

Taking such forecasts into account, Shell considered that mining and metals might become its "fourth leg" to complement oil, gas and chemicals. So it paid Fls422m ($49m then) for Billiton, a company with an 110-year history, first in tin and then in bauxite mining. It also had the attraction of being based, like one of the Shell partners, in the Netherlands.

However, with its turnover of about $1bn a year, Billiton was only a medium-sized mining group, and certainly not big enough on its own to be even a spindly "fourth leg".

Shell decided it should expand it quickly to the right "critical mass" and that it should account for about 10 per cent of the group's business. That indicated Billiton must move to an asset base of about $12bn and steps were taken to push it speedily in that direction.

In view of the total size of the mining industry that was a very unrealistic target and the Billiton managers might have pointed this out more forcefully had they been less overawed. They regarded Shell management as highly-respected and successful and the Billiton executives could be forgiven for thinking: "Perhaps they know something we don't."

According to some of the executives who lived through this period, some important management disciplines were sometimes overlooked in the push for size.

At the beginning of the 1980s came the long period of low metals prices. That recession was caused partly by the oil supply shocks in the 1970s but also arose because companies like Billiton responded to strong world growth in the 1970s and to the Club of Rome forecasts by making large investments in new capacity.

This mainly came on stream just as economic growth fell back. There were then seven years of fundamental over-supply across the whole of the non-ferrous metals industry.

The serious consequences were fully apparent when Slechte was appointed. Apart from selling off the assets, other options were considered at that time, including the possibility that further massive investment in Billiton might help.

Ultimately, Slechte and his team concluded that there was a great deal which could be achieved with Billiton just by working on its existing operations. He advised Shell that, if Billiton were eventually to be sold, it should be put into better shape first.

That was after every one of the operations within Billiton had been reviewed "to define what businesses we were in and why we were in them."

A survival plan was implemented. Billiton's product-oriented divisions were scrapped in favour of four core business segments: mining and associated processing business; aluminium and alumina; manufacturing and marketing of downstream, added-value products; and global trading and marketing of metals and minerals.

Billiton's management organisation, in typical metals industry style, was heavily centralised but Slechte believed it was better to push responsibility as far down the chain as possible.

Head office, a pleasant building on the outskirts of Leidschendam, near the Hague, was turned into a service company. This required the staff to be reduced by half. Some went to the operating businesses but there were also redundancies.

"As the roles of people in the organisation were changing we decided we had to change behaviour and attitudes as well," says Slechte. The new management team decided, for example, that "we would like to trust each other. We wanted individuals to tell their bosses what the problems really were, not what they thought their bosses wanted to hear."

The team dealt with other problems identified in the business review, "from the bottom up." Bankrupt Billiton subsidiaries were refinanced by Shell. Loss-making long-term supply contracts were renegotiated. Over-manning was dealt with and so on.

It was also important for Billiton to live within its own cash flow so that it would never again have to run to the parent group for more money. And, if Billiton were to be a healthy part of the Shell group, it would have to match the average return on capital achieved by sister companies over the economic cycle of between 11 and 15 per cent.

From that latter objective came a determination that Billiton should rely less on the aluminium operations which currently dominate its business. In the early 1980s Billiton had about $1bn of aluminium investment coming on stream.

Slechte points out that the aluminium industry is one in which national governments are frequently involved for reasons not primarily associated with maximising profits or return on capital.

Also "if we want to achieve a competitive rate of return on our aluminium business in the Shell class (11 to 15 per cent), it would have to be well above the industry average. Given the quality of some of our competitors in North America and Europe, that is unlikely.

"But we are in the aluminium business and we will optimise what we already have," says Slechte, which suggests that other parts of the Billiton business will have to do much better than the Shell standard to compensate.

Billiton's aluminium interests currently account for 73 per cent of its $1.6bn capital employed and include alumina refineries in Surinam, Brazil, the Republic of Ireland and Australia plus the associated smelting facilities of Alumar and Valesul in Brazil. Bauxite, the raw material for alumina, is produced from mines in Surinam, Guinea, Brazil and Australia. To complete this strong vertical diversity in aluminium, there are alloy manufacturing plants in Venezuela and the Netherlands.

Away from aluminium, processing assets include a share in a ferro-nickel plant in Colombia (and its associated mine), zinc and lead smelters in the Netherlands and the UK, a tin smelter in Thailand and magnesium oxide and titanium dioxide plants in the Netherlands.

Surprisingly, Billiton was not very strong in mining when Shell acquired it but the company has recently acquired gold mining interests in Ghana and Indonesia to add to existing gold operations at Vilacollo in Chile and at Boddington in Western Australia and lead-zinc mines in South Africa and Australia.

Slechte says that, in order to counter the cyclicality of metals market, political upheavals and currency realignments, Billiton wants a wide spread of metals, countries and currencies in its portfolio.

It already is one of the very few multi-metal companies (there are 12 in the portfolio), but it is still making strenuous efforts to look worldwide – outside the US – for further mining investment opportunities which are past the exploration stage. Within the US, metals company activities are directed by the parent there, Shell Oil in Houston.

New mining investments not only have to be capable of producing low-cost metals but also must meet the financial criteria Billiton has set itself. So far mainly gold properties have been able to match up – until the opportunity to buy Exxon's stake in Selbaie came along.

The Selbaie deal also highlights another part of the philosophy – although Billiton would prefer to have control, it is willing to accept something less than 50 per cent of a venture. In this particular case only 35 per cent of Selbaie is available.

Billiton's drive into more mining ventures – and its annual $250m to $300m in capital investment and acquisitions – has not been made because of an optimistic view of future metals demand and prices.

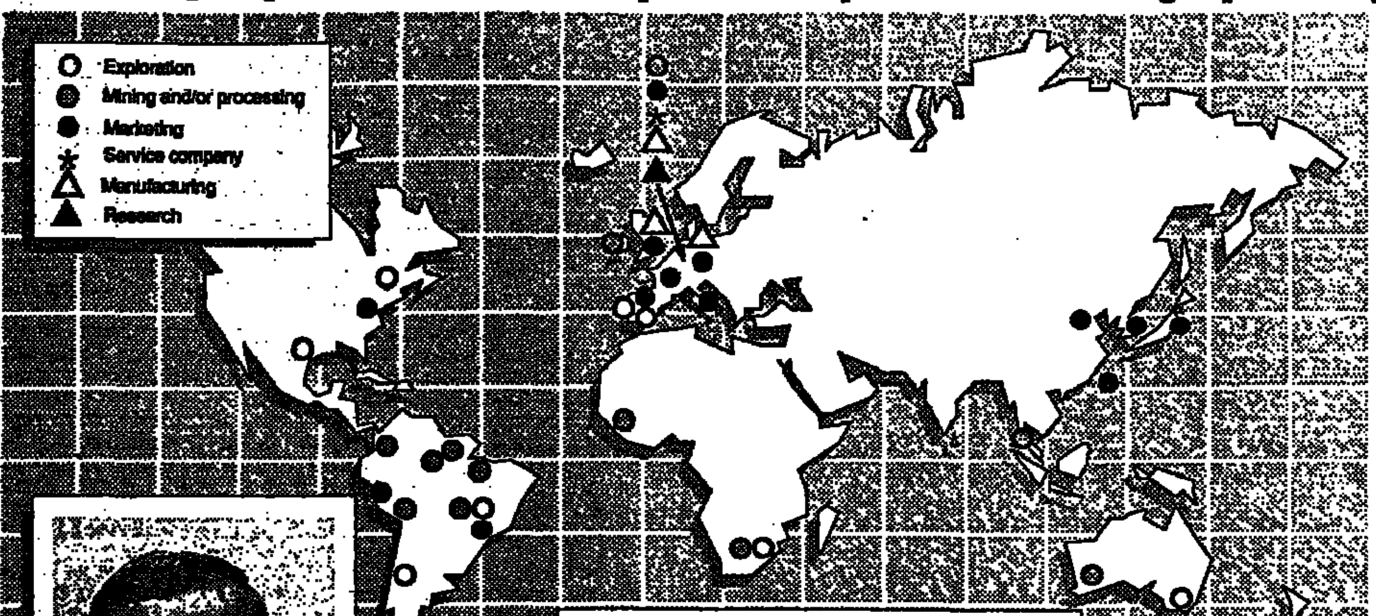
Slechte says that the long term trend in metals prices in real terms is inexorably downward. Metals will not benefit fully from future worldwide industrial growth because producers are not investing enough in product development, there will be less intensive use of raw materials and substitution for metals in future. "So it would be asking a great deal for metals demand to grow in line with the world economy."

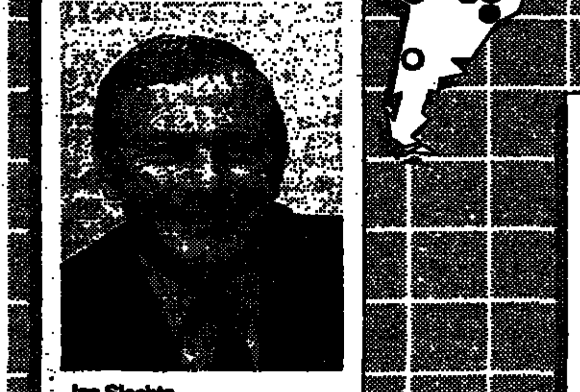
But, he suggests, there is an opportunity for more growth through adding more value to products and giving customers a better service. Also Billiton, even with 5,000 directly employed worldwide, is still only a medium-sized metals group so it has a chance to grow bigger in a fragmented industry where the competition is nothing like as formidable as Shell faces in the oil or chemicals businesses.

Gone is all talk of Billiton becoming a fourth leg for Shell but so far this year it is contributing a healthy 4 per cent of group profit.

Billiton produced its first net profit since 1980 in 1987 – $27m. This jumped to $193m last year. In the first half of 1989 net profit soared again to $137m. Return on capital employed rose from 2 per cent in 1987 to 13 per cent last year and currently is 17 per cent. Billiton generated a cash surplus of $104m in the first half of this year.

Slechte is the first to admit that record metals prices have been mainly responsible for Billiton's remarkable financial recovery. "The real profit will come with a downturn in economic activity," he says. "Then we will see the results of the fundamental improvements we have made to the business – in cost controls, applied technology, contributions from new and expanded operations, marketing and trading and the emphasis on higher-margin products downstream. We are confident that, even in recession, we will still have a relatively good rate of return and will be able to live within our cash flow. That will be the acid test of our success."





Jan Slechte

Income by segment
US$m

	1987	1988	1st half 1989
Aluminium	9	126	110
Manufacturing	1	29	17
Mining & associated processing	40	78	58
Marketing & trading	13	18	40
Miscellaneous	(31)	(24)	(5)
Pre-tax profit	32	227	220
Net income	27	193	137

LEGAL COLUMN

Probing the workings of Japan's legal system

By Hiroshi Oda

THE JAPANESE legal profession is small by the standards of Western industrialised countries, having approximately 14,000 attorneys. The number of inhabitants per attorney is ten times that for solicitors and barristers in the UK.

The contrast is not so sharp, however, because Japanese attorneys share the "legal" market with other professions. Conveyancing, for example, is not usually part of an attorney's business but is primarily handled by judicial scriveners.

Their qualifications are less stringent than those of attorneys and they are more accessible.

Patent cases are handled by patent counsels, while advice on taxation is available from tax consultants.

Attorneys are entitled to perform the functions of tax consultant, patent counsel and judicial scrivener when they register, but those three professions are not allowed to perform the function of an attorney. Attorneys can form a multi-disciplinary partnership with members of other professions.

In addition, many large and medium-sized companies have legal departments staffed by specialists. Most of them are not qualified as attorneys but they do have legal expertise. Big companies involved in high technology also have patent departments or intellectual property departments staffed by legal experts.

Recently, it has become more common for big companies to employ attorneys in their legal departments. Large trading houses also now employ foreign attorneys as staff counsel.

The law gives attorneys a monopoly over legal services and a breach of that monopoly by an unqualified person can lead to two years' imprisonment. Friction between attorneys and judicial scriveners sometimes results in a prosecution.

Partly as a result of the difficulty in contacting attorneys, people sometimes turn to judicial scriveners for legal advice.

The examination system for lawyers is often blamed for the shortage of attorneys and judges. There is a uniform state examination for judges, public prosecutors and attorneys which is administered by the Ministry of Justice.

About 500 out of 20,000 applicants pass the examination every year and go through two years of learning at the Legal Training Institute run by the Supreme Court. The pass rate has been kept intentionally low due to the capacity of the Legal Training Institute and to maintain standards.

Out of those who pass the final examination, 50 become associate judges and will be promoted to full judicial status in ten years. About 40 to 50 become public prosecutors and the remaining 400 become attorneys.

Before the end of the Second World War, the status of attorneys was much lower than that of judges and public prosecutors, who were part of the officialdom. Attorneys had to register with the district court and were supervised by the chief prosecutor of the court. Disciplinary action was taken not by the bar, but by the appellate court.

The bar enjoys full autonomy under the present system. Attorneys are registered with a local bar and there is also a national Japan Federation of Bar Associations. Disciplinary action against members is taken by the disciplinary board of the bar, which is subject to judicial review.

The fact that the number of attorneys is small does not mean that Japanese attorneys live in a non-competitive environment. Most attorneys are concentrated in main cities, particularly Tokyo and Osaka. There are many attorneys fighting for business in such cities, while there is an acute shortage of attorneys in rural areas.

An important difference between Japanese and British law firms is that Japanese lawyers are predominantly sole practitioners. They mostly advise private clients and small companies on domestic matters and are seldom involved in international business.

It is often difficult for clients to find an attorney, even in large cities such as Tokyo and Osaka

There are larger firms advising big companies, but even those firms are much smaller than the well-known law firms in England.

Advertising by attorneys is subject to various restrictions. Attorneys have to find clients through personal connections and the links they have developed while working in larger firms. For the clients, it is often very difficult to find an attorney, even in large cities.

Access to attorneys by ordinary citizens and small companies is further limited by the fact that legal fees are not easy to predict. The Bar has a standard scale of fees, but it is not binding. The set fees are often vague and offer little information to prospective clients.

People seldom consult an attorney unless a dispute actually arises. As a result, most attorneys spend considerable time in court and preparing cases for litigation.

Companies seek the advice of an attorney from time to time, but the day-to-day legal work is carried out by staff. A few leading law firms that deal with transnational business are exceptions to the pattern.

The development of international trade and finance in Japan has affected the legal profession to some extent. Urged by the US, the Japan Federation of Bar Associations has reluctantly accepted the need to open the door to foreign attorneys.

A law in 1986 made it possible for attorneys qualified in a foreign country to practise in Japan but this law is still considered to be unsatisfactory by foreign attorneys.

Partnerships between Japanese and foreign lawyers are not permitted and the requirement that the attorney should have had five years' practice in his home country is especially inhibiting.

It is fairly common for leading companies to seek advice and assistance from foreign law firms. The floating of bonds abroad is only one example of the sorts of cases where the advice of a foreign law firm is indispensable.

Such firms are contacted either through a Japanese law firm which acts for the company or by direct personal connection.

In a survey of listed companies conducted in 1987, 33 per cent of the respondents said they had consulted foreign attorneys in the past. American attorneys were most frequently consulted, which is not surprising considering the close trade relationship with the US.

With closer financial and trade relations between Europe and Japan, particularly with 1992 in view, there will certainly be more cases where British and European firms will be consulted on legal matters.

There are already British law firms with offices in Tokyo advising on UK and EC law.

In contrast, it may not be too harsh to say that Japanese law firms are lagging behind developments in international business.

Even leading firms are slow in preparing to take up the business opportunities that the Single European Market may provide, although some leading firms have established formal links with law firms in Europe in the last couple of years.

That is bound to increase as Japanese law firms become gradually aware of the necessity of developing expertise in the law of European countries and the European Community.

The author is a visiting professor at University College London on leave from the University of Tokyo. He will be taking part, along with a number of top specialists from Japan, in the Third UCL Conference on Japanese Law (Banking, Securities and Intellectual Property Law) from September 6-8.

LEGAL APPOINTMENTS

LAW SOCIETIES ADMISSIONS 1st SEPTEMBER,1989

ADAMSON, Barry David LL.B Mr, Freshwater, Isle Of Wight
ADDISON, Henry Solicitor Of The Supreme Court Of New Zealand Mr, Kew, Surrey.
ALLEN, Janine Edwina LL.B Miss, Birmingham, West Midlands
BENNETT, Nicholas John Headley LL.B Mr, Bracknell, Berkshire
BISHOP, Mark Mr, Glenfield, Leicester
BLAND, Martin LL.B Mr, Poulton-Le-Fylde
BOLTON, John Francis B.Sc, M.Sc, M.B.A, Mr, Westbury-On-Trym, Bristol
BRATT, Davis Colin LL.B Mr, West Bromwich, West Midlands
BREWIS, Gillian Mary LL.B Miss, Great Dunmow, Essex
CANNON, Nicholas Barry LL.B Mr, London
CHUBB, Stephen John Solicitor of the Supreme Court of New Zealand Mr, London
COLLINS, Kathryn Elizabeth Miss, Heston, South Wirral
CONNOLLY, Kevin Patrick LL.B Mr, Newport Gwent
COOMBS, Helen Margaret LL.B Miss, Jesmond, Newcastle Upon Tyne
COWAN, Suzanne B.A Mrs, Honley, West Yorkshire
CROSSLEY, Peter Mortimer B.A, B.Com, LL.B Mr, Cambridge
DOCKING, Paul James M.A Mr, Fleet, Hampshire
DRINKWATER, David William Solicitor of the Supreme Court of Ontario Mr, London
ECCLESTON, Steven Peter Mr, Manchester
EDBURY, Claire Louise LL.B Ms, Codsall Nr Wolverhampton, Staffs
ETIENNE, Eric Noel Solicitor of the Supreme Court of Trinidad & Tobago Mr Martin Diego, Trinidad
EVANS, David Micheal B.Sc Mr, Cardiff, South Glamorgan
EVANS, Penelope Jane LL.B Miss Barton-le-Clay, Bedford
FENDT, Terence Edward Mr, Chigwell, Essex
FORSYTH, Neil Munro LL.B Mr, Farnborough, Hampshire
GADSBY, Duncan Robert James Mr, Great Dunmow, Essex
GARETT, Rosemary Anne B.Sc Mrs, Crediton, Devon
GEE, Craig B.A Mr, Leytonstone, London
GILLESPIE, Hugh Edwin Solicitor of the Supreme Court of Hong Kong Mr, Hong Kong
GLEDHILL, Judith LL.B Miss, Nelson Lancashire
GOLDBLATT, James Oliver Mr, Borehamwood, Hertfordshire
GOWENLOCK, Judith Margaret LL.B Miss, Bristol, Avon
GRATTON, Sarah Caroline LL.B Miss, Bath, Avon
GRAVES, Patrick Michael M.A Mr, Clapham, London
HARDY, Andrew LL.B Mr, Houghton-Le-Spring, Tyne & Wear
HARRINGTON, William Mark LL.B Mr, Aldridge, Walsall
HO, Chi Kuen Dennis Solicitor of the Supreme Court of Hong Kong Mr, Central Hong Kong
INGLE, Matthew Charles LL.B Mr Huntingdon, Cambridgeshire
JACKSON, Helen Marguerite LL.B Mrs, Newcastle Under Lyme, Staffs
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LI, Andria Sak Ming, B.Sc, LL.B, Miss, London
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MCCORMACK, Tracy Ann, LL.B, Miss, Cardiff, South Glamorgan
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MCFALL, Helen Joan, LL.B, Miss, Oswestry, Shropshire
MUIRHEAD, James David Charles, LL.B, Mr, Helston, Cornwall
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PATEL, Kanti Kanjibai, Solicitor Of The Supreme Court Of Zambia, Mr, London
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PITTICK, David Charles, Mr, Bristol, Avon
POON, Anthony Kin Sum, Solicitor Of The Supreme Court Of Hong Kong, Mr, Central Hong Kong
POWER, Patrick Roy, Mr, Guildford, Surrey
PRYSE-DAVIES, Hugh, M.A, Mr, London
RAJAPAKSA, Anila Manique, Barrister & Solicitor Of The High Court Of New Zealand, Ms, Reading, Berks
RAYNER, Valerie, LL.B, Ms, Mickleton, Glos
ROBERTS, Philip James, LL.B, Mr, Twickenham, Middlesex
SARGINSON, Jane, Ms, Warrington, Cheshire

CLUBS

LEGAL NOTICES

Insurance Companies Act 1982
FS ASSURANCE LIMITED
BRITANNIA LIFE LIMITED

NOTICE IS HEREBY GIVEN that on 22nd August 1989, a Petition having been presented to the Court of Session by FS Assurance Limited a company incorporated under the Companies Acts 1948 to 1967 (registered no 47222) and having its registered office at 190 West George Street, Glasgow G2 2PA (hereinafter referred to as "FS") for

(1) the sanction of the Court as required by Section 49 of the Insurance Companies Act 1982 to a Scheme involving the transfer to Britannia Life Limited a company incorporated under the Companies Act 1985 (registered no 117118) and having its registered office at 190 West George Street, Glasgow G2 2PA (hereinafter referred to as "Britannia Life") of the whole of the long-term business (as defined by the said Act) carried on by FS; and

(2) an order under Section 50 of the said Act transferring to Britannia Life the whole of the undertakings and of the property and liabilities of FS attributable to such long term business,

the Vacation Judge by interlocutor dated 22nd August 1989 appointed the Petition to be intimated on the Walls and in the Minute Book in common form and to be advertised once in the London Gazette, the Edinburgh Gazette and the Belfast Gazette and once in each of the Scotsman, Glasgow Herald, Financial Times and The Daily Telegraph newspapers, directed service of a copy of the Petition on Her Majesty's Secretary of State for Trade in common form, dispensed with the requirements of section 49(3)(b) of the Insurance Companies Act 1982, and appointed all parties claiming interest to lodge answers to the Petition if so advised within 21 days after such intimation, service and advertisement.

Copies of the Petition, the Scheme and the Report on the terms of the Scheme by an Independent Actuary (as required by Section 49 of the said Act) will be open to inspection at the registered offices of FS and Britannia Life, both situate at 190 West George Street, Glasgow G2 2PA, and at each of the branch offices of FS, whose addresses are set forth in the Schedule hereto, during normal business hours on any week day (Monday to Friday) up to and including the day 21 days after the publication of this notice.

Copies of the above documents will be furnished to any person requiring the same by the under-mentioned Solicitors at any time before an Order sanctioning the Scheme is made on the Petition on payment of a copying charge of 10 pence per page.

All of which intimation is hereby given.

105 West George Street
Glasgow
G2 1QP

Biggart Baillie & Gifford WS
Solicitors for the Petitioners

4 September 1989

SCHEDULE

126 Colmore Row Birmingham B3 3AP	Imperial House 15-19 Kingsway London WC2B 6TH
King William House 13 Queen Square Bristol BS1 4NT	7-9 St James's Square Manchester M2 6DN
6 Hope Street Edinburgh EH2 4DB	Houndsgate House 41-43 Houndsgate Nottingham NG1 7AA
176 Bath Street Glasgow Glasgow G2 4TB	Spencer House 12-14 Carlton Place Southampton SO1 2EA
12 South Parade Leeds LS1 5QS	

LAW SOCIETIES ADMISSIONS 1st SEPTEMBER,1989

SELLATHAMBU, Anthony Mahendran, Solicitor Of The Supreme Court Of Sri Lanka, Mr, Wembley, Middlesex
SERESINHE, Lakadasa Rajkumar Jayatilleke Wijeratne, Solicitor Of The Supreme Court Of Sri Lanka, Mr, Galle, Sri Lanka
SETO, Frank Kai Shui, Solicitor Of The Supreme Court Of Hong Kong, Mr, Hong Kong
STANIFORTH, Christopher Leonard William, B.Sc, Mr, Holywell, Clwyd
STIRZAKER, Ian Robert, LL.B, Mr, Fernhill Heath, Worcester
SUDUSINGHE, Upali, Solicitor Of The Supreme Court Of Sri Lanka, Mr, London
TANG, David Hon Sing, LL.B, Mr, Bow, London
THOMPSON, Gordon George, B.A, Mr, Withington, Manchester
TIMBERLAKE, Mark Richard, LL.B, Mr, Poole, Dorset
TIRABOSCO, Connie, Solicitor Of The Supreme Court Of New South Wales, Ms, Central Hong Kong
TSUI, Robert Che Kwong, Solicitor Of The Supreme Court Of New South Wales, Mr, Central Hong Kong
TURNER, Carlie, LL.B, Miss, London
TYNER, Russell John, B.A, Mr, Wellingborough, Northants
VASEY, Patricia, LL.B, Miss, Barrow-In-Furness, Cumbria
WALLER, Edward Arthur, Solicitor Of The Supreme Court Of Hong Kong, Mr, Hong Kong
WEST, Graham Charles, B.A, Mr, Redhill, Surrey
WHARTON, Iain Terence, LL.B, Mr, Stockton-on-Tees, Cleveland
WILLMOTT, Barry, Mr, Clifton, Bristol
WILSHER, Joanna, B.A, Miss, Barnet, Hertfordshire
WONG, Tak Shing, Solicitor Of The Supreme Court Of Hong Kong, Mr, Central Hong Kong
WOODGATE, Antony John, Solicitor Of The Supreme Court Of Victoria, Mr, Bow, London
WOODWARD, Peter Dennis, B.A, Mr, Lincoln
WU, Wing Kit, Solicitor Of The Supreme Court Of Hong Kong, Mr, Central Hong Kong
YU, Kai Wing, Solicitor Of The Supreme Court of Hong Kong, Mr, Kowloon, Hong Kong

COMPANY NOTICES

HOECHST AKTIENGESELLSCHAFT

United Kingdom shareholders are advised that copies of the report on the 1st half-year 1989 are now available from:-

S.G. Warburg & Co. Ltd.
Paying Agency
2 Finsbury Avenue
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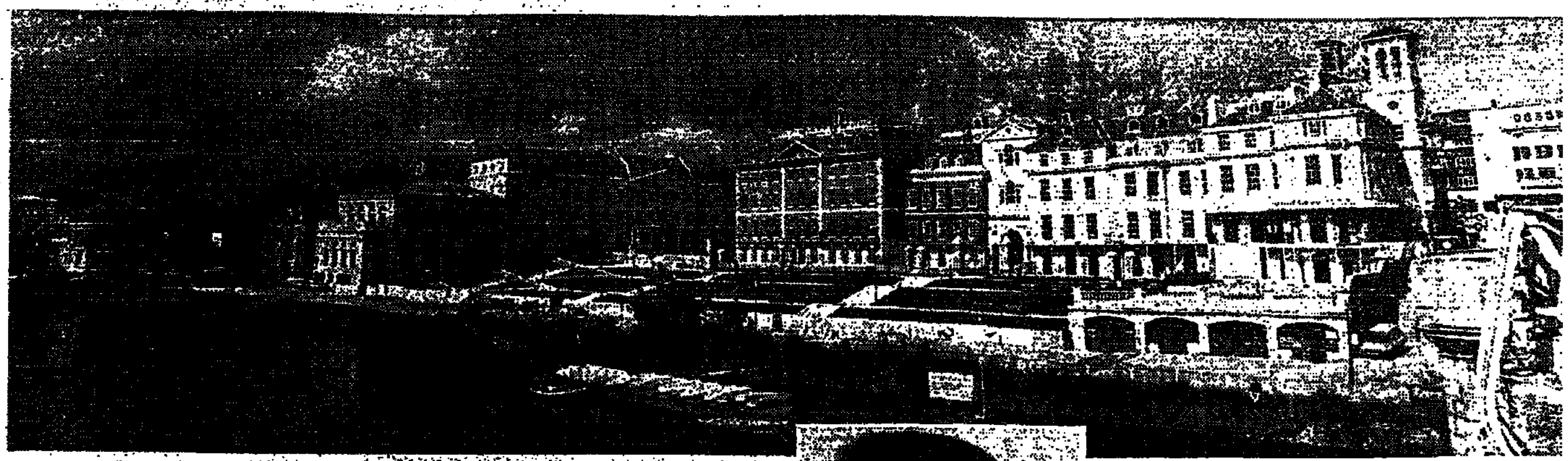
RENTALS

CONTRACTS & TENDERS

ARTS



Architecture

A clear and unclouded vision of Britain

Prince Charles's book will kick off an eventful week for the profession, says Colin Amery

It's going to be a hell of a week. You may have thought that the architectural debate was calming down and that after the long hot summer it might be possible to slip quietly into an autumnal hibernation. Not so.

It all starts on Thursday when HRH The Prince of Wales will open an exhibition about his architectural ideas at the Victoria and Albert Museum in London. The opening of the exhibition also marks the launch of his book which will be published on the same day. (*A Vision of Britain – A Personal View of Architecture*, by HRH The Prince of Wales, Doubleday, £16.95).

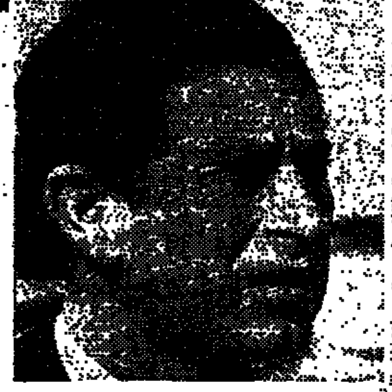
To ensure media saturation the serialisation of the royal book has already started in a national Sunday newspaper. From the initial extract it is possible to see that the actual substance of Prince Charles's book is far from being an extended attack on modern architecture. Rather it is a calm, considered and constructive "thinking aloud" by a young man concerned about the whole problem of the British built environment.

The Prince of Wales has put himself in a position where he receives thousands of letters that share his puzzlement about the sheer difficulty of improving architectural standards. No-one could disagree with the need to establish a simpler code of design ethics that bears some relationship to the places we know and love. Respect for the land, a sense of the importance of scale and proportion, a concern for the right use of local materials – all these seem obvious to the layman but are often ignored wilfully by professionals.

The whole of the Prince's book is really a plea for us all to shake out of our aesthetic idleness. It is a modest, polite and decent manifesto, mercifully free of flippant jargon. The book is not simply about architectural style; it naturally exhibits some personal preferences, but these are scarcely sufficient to justify some of the professional paranoia that has been exhibited by some architects. The Prince does not damn the new – he is yearning for more quality and less dogma from architects. Surely this should be an area for national agreement.

The eruption of architectural events prompted by the Prince's book and exhibition includes three television programmes this week. There is a reshowing of the Prince's own film on BBC 1 on Thursday, to be followed by a debate on BBC 1's "Omnibus" on Friday. On Tuesday on ITV, and in a different vein, there is the first of a series of six programmes from Yorkshire Television in which Lucinda Lambton celebrates the rich variety of new buildings she has seen on her travels throughout Britain. She will certainly puncture the humourless architectural profession in her programmes, which are significantly called "Hurray for Today."

The endless parade of architectural events continues next week with the appearance of a new monthly (ten times a year) architectural magazine, *Architecture Today*, edited by two younger veterans of the building press, Ian Latham and Mark Swenarton. The magazine is to be sent free to all members of the profession, but it aims to be a high quality give-away.



Prince Charles: a clarion call to shake us out of aesthetic idleness. Above and right, the Richmond riverside development and Glasgow's Burrell Collection building: prime candidates for a royal seal of approval

The first issue looks promising and agreeably low-key. It has an international perspective, which could help to end the ludicrously incestuous nature of much of the national debate that endlessly rattles on in so much of the professional press. It is interesting to glimpse the proposed domed city church that is planned for Milton Keynes and to learn that Ricardo Bofill is to design on a site at Stockley Park.

For a quick and partial survey of what current British architecture looks like, there is another new book, *New British Architecture*, by Jonathan Glancey (Thames and Hudson, £20) to be published on Thursday. There is nothing in this book by Richard Rogers, James Stirling or Norman Foster, which certainly makes one question its value as a serious critical survey of the current state of the art.

The thesis of the book is that Thatcherism has made enough people rich to encourage a wave of significant new buildings in the private sector. Many of these are bars, shops and cafés with an ephemeral appeal. However, this is where the young designers start and we will certainly hear more of Nigel Coates (of the Café Bongo in Tokyo and the Katherine Hamnet shop in London's Sloane Street), and of David Chipperfield, who designs shops and offices including the remarkable (and remarkably named) Bingo Bango Bongo bar, also in Tokyo. If we want to see the future for London, Glancey seems to suggest, we should be looking at Tokyo.

This is really a picture book with very good photographs, but it is slight on critical argument. While it frequently tells us how vibrant the 1980s have been, in the same breath he tells us that it has all been like a pop video. In fact there is a great deal of imaginative talent in Britain but the omission of important architects like Eric Parry, Evans and Shalev, David Lea and Keith Critchlow makes me wonder whether Glancey is more interested in trendiness than quality.

The week would not be complete without a mention of the inevitable whimper from the Royal Institute of British Architects, which must by now feel that it can never get anything right. The institute's response to the general furore has been to produce a book by its new president, *The Prince of Wales, Right or Wrong? An Architect Replies*, by Maxwell Hutchinson (Faber and Faber £10.99, paperback £4.99).

This is a curious little volume written in a sort of journalese that I thought Tom Wolfe had finally laid to rest. The book reads like an earnest school essay but at more length and with no pictures. It is a shame that Hutchinson has been compelled to rush into print, seemingly in order to gain personal publicity. I couldn't help wondering why he had chosen the profession of architecture. He would be much more at home at Cape Kennedy, where he could project his vision of a technological future into space.

His book shows him to be a fantasist with little sense of logic, history or design. This book is a throwback to the 1960s, when students skirmished with social concern but really preferred pop music. It would have been wiser for the profession not to publish such a superficial book. There is, of course, a need for architecture to evolve and provide for our needs in the 21st century. But progress demands an understanding of humanity – something many architects seem unable to grasp. Enjoy an architectural week.

Sponsorship

Scotland's cash balancing act

With four months still to go before Glasgow becomes European City of Culture, £1.4m has already been raised in business sponsorship and the figure is expected to reach £2m before the start of the year-long festivities on January 1.

Eighty per cent of that money is new sponsorship – either from first-time sponsors or from firms which are making a contribution over and above their normal commitments, according to Wendy Stephenson, director of sponsorship for Glasgow 1990.

A vital part of her job is to ensure that Glasgow's gain is not the rest of Scotland's loss, with backers dropping less glamorous commitments to jump on the 1990 bandwagon. "It is very important that the big organisations don't feel we are stealing money away from them," she said. "If a firm comes to me saying they are interested, my first question is, how will it fit in with your existing programme?"

The backing for Glasgow 1990 – the biggest sum raised in the history of Scottish sponsorship – compares with around £500,000 for this year's Edinburgh Festival. For all the confidence that the celebration will presage a new era of arts sponsorship in Scotland, there remains an anxiety as to what the effect will be.

The Cumbernauld Theatre, in a new town just 10 miles from Glasgow, is an example of a small outlet which, through sustained hard work, now makes up to 6 per cent of its income through sponsorship, compared with a national average of about 1 per cent.

Administrator David Taylor said: "We are looking for extra money in 1990 for our own events, but Glasgow has a very high-powered operation and we hope that doesn't drain the money away."

New sponsors who have already committed themselves to the Glasgow festivities range from solicitors Brechin Robb, who are putting £5,000 into a night of the Scottish Opera, to distillers Whyte & Mackay, making their arts sponsorship debut with £135,000 backing for the Van Gogh exhibition.

Whyte & Mackay's approach to their involvement is hard-nosed, reflecting a feeling among many sponsors that input into the arts must justify itself in marketing terms. The company has previously channelled its sponsorship through sport, concentrating on golf and on football internationals.

Marketing director Charles Shaw said: *"I think up to now* arts groups have seen sponsorship more as patronage, but it is a commercial world and we measure the value of it pound for pound against all other elements of marketing. Patronage has no part to play in that."

Whyte & Mackay chose to back the Van Gogh exhibition in the belief that it had a strong local appeal and a high profile. "We thought that putting together the biggest exhibition of a Gogh's work outside his home country was something that in PR terms we could merchandise," said Mr Shaw.

His stance is characteristic of a business community which is demanding ever bigger and more imaginative incentives from arts organisations as the competition for sponsorship increases.

Figures compiled by the Scottish Arts Council from its own clients reveal a tenfold increase in business sponsorship since 1979-80, with particularly large rises in the brewing/distillery and media sections. Deregulation of advertising has meant that legal and professional firms are also featuring for the first time.

But with more than 90 per cent of the money concentrated on Edinburgh and Glasgow, and about two-thirds of it going to the Edinburgh Festival and the four national companies, huge problems still remain for organisations that are either geographically unappealing or involved in traditionally unattractive areas such as the visual arts or experimental work.

SAC's director Timothy Mason sounds a note of warning. "I think we've realised that sponsorship isn't *the* answer: there's no Seventh Cavalry. Longer-term sponsorships are rare and bargaining for the benefits is getting very much harder."

In response to the uncertainties of both sponsorship and subsidy, Edinburgh Festival has launched a £10m endowment initiative, which is already well on its way to its first million.

"Complementary" was a word that loomed large in the summing up speech of Edinburgh's director Frank Dunlop as he was pressed on the impact that 1990 would have on the financial and artistic wellbeing of next year's Festival.

Wendy Stephenson, who built up business sponsorship for Edinburgh before defecting to Glasgow, puts it in a nutshell: "People must realise that the most important thing *about 1990 is 1991."*

Claire Armitstead

The Moonstone

NEW VICTORIA, STOKE

Wilkie Collins's novel has not so much been adapted by Chris Martin as serialised. On a rather fetching landscape by Anny Everson and Brigitte Lambert, three levels of polished wood, with a hint of rushes in the middle to suggest the Shivering Sands, the characters in this first of detective stories take turns to recite their parts in what I take to be mostly the words from the page.

It is a satisfactorily baffling tale, though it breaks some of the rules of detective-fiction as subsequently agreed by practitioners of the craft. Facts are concealed that should rightly be given to the audience; and as for the final twist, where we learn that Franklin Blake, who unconsciously stole the Moonstone under opium, then passed it on to Godfrey Ablewhite, there is no clue to his having done anything of the sort. We are just told that he did.

It is not really a detective story, in fact, in spite of the endearing figure of rose-loving Sergeant Cuff of the London Detective Agency, whom David Miller plays very much according to the book. The diamond, stolen by young Herncastle when he was serving in India, and passed to the Verinders with an Indian curse on it and three Indians determined to get it back, was given to Rachel Verinder (Frances Fielding) for her birthday and stolen the same night.

Blake and Ablewhite, both after Rachel's hand and fortune, were in the house, and one of the housemaids, Rosanna, has served a prison term for theft. Cuff thinks Rachel might even have taken it herself. The only clue we have is the smeared paint on a newly-painted door; but there is no stained garment to go with it.

The entire story is told in brief episodes in which the dialogue maintains the genuine 1850 quality.

I have to say that, although the complications of the tale have their fascination, Chris Martin's method (he also directs) makes for a long evening. Ezra Jennings, who provided the opium, says at one point, "The time continues to pass slowly," and a London audience would not have received that line so passively.

B. A. Young

Olaf Bär

WIGMORE HALL

To rehearse Bär's virtues as a Lieder singer yet again would be otiose, and also unfairly tantalising: nowadays only well-organised Londoners on the right mailing lists can get to hear him. The excellent Wigmore Hall is small, and so far Bär shows no inclination to try the larger ones here. (We have a gap that needs filling, by an auditorium with an acoustic as friendly as the Wigmore's but twice the size.) His velvety, sweetly confiding baritone must be one of the most carefully husbanded instruments in the business: no forcing, no risk-taking. So far, given his rare musical intelligence and grace, the result has always justified itself.

Luckily all the same, he has a burgeoning operatic career which requires more (year after next, a Glyndebourne Don Giovanni); and his Saturday recital showed how judiciously he is aiming toward bigger scale. He began with Schumann's least favoured cycle, the dozen op. 35 songs after Justinus Kerner – hardly operatic stuff, what with Kerner's woozy German-Romantic verses (which travel very badly) and the loyal murk preserved in Schumann's settings, but just on that account needing bold shafts of illumination.

Bär and his accompanist Geoffrey Parsons (on best form) provided many of those. In the one familiar number, "Erstes Grün" he wasn't misled by the winsome piano-interludes – unlike most singers – into making it idyllic and pretty, but recognised the underlying malaise.

The Bär voice has darkened perceptibly, and elsewhere it took on a sharply poignant edge. Kerner's morbid shaggy-dog story about a young novice, "Stirb, Lieb und Freud," is probably unsaveable, and even Bär and Parsons sounded discouraged there, but Bär's sudden switch to a white, androgynous timbre for the nun's climactic plea had to count as an authentic risk. No space now to discuss Bär's ten Richard Strauss songs; but his newly-found irony and vocal sexiness were splendid, as well as his searing attack in "Ruhe, meine Seele." As the old disarming *pudeur* fades, his expanding range promises – all in due course, naturally – much more.

David Murray

La gazza ladra

PESARO FESTIVAL

Almost exactly 10 years ago, when Pesaro's Rossini Opera Festival shyly appeared on the Italian musical scene, it inaugurated its activities – and the handsomely, tactfully restored Teatro Rossini – with an enjoyable revival of *La gazza ladra* in a smooth, simple production by Sandro Sequi, designed by Giuseppe Crisolini Malatesta, based on the Scala sets of the 1817 premiere. The opera was an especially appropriate choice because in 1818 it had opened the then brand-new Teatro Rossini with the composer conducting.

In 1980 *La gazza ladra* was something of a rarity in Italy, like many other Rossini operas; and audiences came more for the work itself than for the production. But in this past decade, the dazzling success story of Pesaro's festival in honour of its most illustrious son has inspired further Rossini investigation – and performance – elsewhere.

Choosing to repeat the inaugural opera after 10 years afforded an opportunity to assess in a new light the position of Rossini and the festival. Though the Rossini canon is extensive, it is not inexhaustible, and the Pesaro festival is rightly concentrating less on discovery and more on interpretation.

In repeating *La gazza ladra* it has allowed those of us with long memories to compare two different and significant attitudes. Ten years ago, there were no big names in the cast, and – except for the American tenor Bruce Brewer – there were no singers that could be considered belcanto specialists. The production, largely in pastel shades, emphasised the fairy-tale quality of the libretto, the dire adventure of the unjustly-accused Ninetta, saved from execution by a series of fortuitous coincidences in time for a happy ending.

The new production by Michael Hampe, designed by Carlo Diappi, looks at the opera from a divergent, far more sinister point of view. Partly also because of the dominating presence of Samuel Ramey as the relentlessly wicked Podesta, the forces of evil seem much stronger, and the fairy-tale takes on a dark, grim hue.

Another stalwart of the festival, Katia Ricciarelli, was the Ninetta. After a recent fiasco at La Scala in a Verdi opera, here she was on safer ground; and she sang always decently, sometimes affectingly, though she was over-cautious.

A more-than-promising tenor, William Matteuzzi, was an appealing Giannetto. The gifted mezzosoprano Bernadette Manca di Nissa – who has already made her mark at La Scala – sang the trouser role of Pippo simply and movingly. But, for that matter, the entire cast was effective and stylish (another mezzo, Luciana d'Intino, deserves special praise for her interpretation of the ungrateful role of Lucia). Though Ramey seemed the protagonist of the opera, he was ably supported by another fine bass, Ferruccio Furlanetto, as Ninetta's unfortunate father.

Michael Hampe's staging was traditional, straightforward, awkward only in the crowd scenes. Diappi's designs were appropriately autumnal, in keeping with the general approach to the piece. The Prague Philharmonic Chorus (prepared by Lubomir Mall) and the Turin Orchestra of the Italian Radio – both apparently regulars at the festival now – were in excellent form.

In commemoration of the late Jean-Pierre Ponelle the festival revived his staging of *L'occasione fa il ladro*, recreated by his one-time assistant Francesca Zambello. Actually, this revived version seemed less hectic than the original, and more likeable. Ion Martin conducted the Turin musicians deftly, unobtrusively; and the largely young cast sang with brio. Alfonso Antoniozzi was tirelessly resourceful as the comic servant Martino and the petite young soprano Giusy Devinu (praised in these columns last January for her singing in Paer's *Achille* in Lugo) confirmed her grasp of early 19th century style.

William Weaver

ARTS GUIDE

September 1-7

MUSIC

London

The Proms. This year's Proms continue until September 16. Most concerts take place at the Royal Albert Hall, though St Paul's Church, Knightsbridge, and Kensington Town Hall are also used. Tickets for most concerts cost from £3 to £11, and can be booked on 589 8212, 589 9465 (10am-6pm) or 379 4444 (24 hours); promenade tickets are available only at the door on the day of the concert priced at £1-50 or £2.

This week's programme includes Knussen, Debussy, Minna Keal, Tavener, Mussorgsky, Stravinsky (BBC Symphony Orchestra/Oliver Knussen) (Mon); Prokofiev and Rimsky-Korsakov played by the London Symphony Orchestra under Michael Tilson Thomas (Tue); Bach's Mass in B Minor in a performance conducted by John Eliot Gardiner (Wed); and a programme of Beethoven, Hoddinott and Elgar conducted by Richard Armstrong (Thur).

Paris

Krakow Choir and Philharmonic Orchestra conducted by Krzysztof Penderecki, with Barbara Zagorzanka (soprano). Verdi's Requiem (Tue). Salle Pleyel (48049801).

Paris Ars Antiqua. Music of the Troubadours, 15th century music at the court of Burgundy, 16th and 17th court and village music (Mon), French medieval songs, Shakespeare and Elizabethan music (Wed), music from the Crusaders' period, Guillaume de Machaut, golden age of Spanish music (Thur). The Ars Antiqua concerts take place at 7.15pm and 9.15pm in the Sainte Chapelle with its jewel-like 13th century windows (43405517). 4, Bd du Palais.

Brussels

Cercle Royal Gaulois. La Follia Instrumental Ensemble and Irina Tseitlin (violin), playing Lully's *Alcidiane et Polexandre*, Vivaldi and Bach (Sept 4) (513 83 20). Chapelle des Brigittines. Brussels Festival Orchestra conducted by Robert Janssens. Vivaldi (Sept 4) (513 89 40.

Ludwigsburger Schlossfestspiele

Württemberg's international festival:
Schlosstheater. *Die Hochzeit des Figaro* in Dieter Dorn's production with Joachim Seipp, Verena Schweizer, Marianne Hirsti, Anton Scharinger, Marianne Rorholm and conducted by Wolfgang Goennenwein (Mon, Wed); Hans Werner Henze's opera *Die Bassariden* with Kenneth Riegel, Wolfgang Schoene, Wolfgang Probst, Michael Austin, Karan Armstrong, Ortrud Wenkel and the Stuttgart Opera Orchestra, conducted by Garcia Navarro (Thur).

Frankfurter Feste 1989

This year's Frankfurt Festival with the title of A Common Brotherhood is based on two historic events: the French Revolution in 1789 and the start of the Second World War II 50 years ago.

The programme with around 100 performances, attempts to explain the historic events and their influence on contemporary culture and society in terms of the struggle for liberty. It starts with an international choir festival with 10 different ensembles from various nations, accompanied by the Moscow Radio Orchestra, jointly conducted by Wladimir Fedossejew and Gary Bertini.

There will performances of works by Mauricio Kagel, of Britten's War Requiem and Prokofiev's Alexander Nevsky.

Most of the Beethoven symphonies will be played by the Concertgebouw Orchestra Amsterdam, conducted by Riccardo Chailly, the Berlin Philharmonic, Leningrad Symphony, the Saito Kinen Orchestra under Seiji Ozawa.

The North German Radio Orchestra will perform Krzysztof Penderecki's Polish Requiem, under the composer.

Other highlights indude a concert version of *Andrea Chenier* starring Renato Bruson, Franco Bonisolli, Maria Guelegina and the Budapest Radio Choir conducted by Gianluigi Gelmetti, as well as Handel's rarely played *Tamerlano*.

There will be also be contemporary music by Wolfgang Rihm, Mauricio Kagel, Michael Sell and Antonio Madigan. Experiments, musical theatre, chamber music, exhibitions and open-air music round off the programme. Alte Oper: tickets Frankfurt 069/1340-400. Ends Oct 3.

Stresa

Settimane Musicali: Teatro del Palazzo dei Congressi. Katia Ricciarelli sings Mozart, Locatelli, Handel, Paisello and Vivaldi (Tues) (31095/30459).

Vienna

Jess Trio. Chopin, Liszt, Beethoven. Palais Palffy (Mon). Haydn Sinfonietta conducted by Manfred Huss. Haydn, Mozart. Palais Auersperg (Tues). Wiener Klavierquartett. Mozart, Mahler, Schumann. Palais Palffy (Thur).

Washington

National Symphony Orchestra. Pops concert conducted by Norman Leyden with the Paul Hill Chorale. Ellington, Porter, Cohan (Thur). Kennedy Center Concert Hall (Thur) (254 3776).

Tokyo

Hiroko Nakamura (piano), with the Yomiuri Nippon Symphony Orchestra, conducted by Naohiro Totsuka. Beethoven, Rachmaninov. Suntory Hall (Mon) (356 9999).

Keiko Maehashi (violin), with Tokyo Symphony Orchestra, conducted by Kazuyoshi Akiyama. Prokofiev, Brahms (Tues). With Takahiro Sonoda (piano). Brahms, Bartok, Franck (Wed). Suntory Hall (545 9348).

Japan Philharmonic Orchestra conducted by Ken'ichiroh Kobayashi. Mahler. Suntory Hall (Thur) (234 5911).

FINANCIAL TIMES

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Monday September 4 1989

Labour and the unions

THIS YEAR'S season of political conferences, of which this week's annual gathering of the Trades Union Congress is the first, has as its theme the question of whether the Conservative Party will or will not win a fourth election in a row. All politicians are acutely aware of this; so are the principal trade union leaders, who remain mentors of the Labour Party. The deliberations of the four opposition parties, plus those of the TUC, will largely be about how to bring Mrs Thatcher's period of office to an end; the Conservatives will be conscious that the one thing they cannot do is take victory for granted.

They will find it less easy than it was to make political capital out of the trade unions, which were once an undoubted asset for the Conservative Party. One reason is that unions are no longer perceived as a threat to the elected government. The TUC leaders have become more settled about their role in politics. Although the trade unions will finance Labour's election campaign, they are gradually withdrawing from an overt political role. There is little desire among them to resume a central position in managing an incomes policy or in economic planning. Another factor is that Tory legislation is working. This summer's strikes were called after lawful ballots. None involved mass picketing or violence. As a result in some cases, such as the rail disputes, the unions enjoyed substantial public support.

Steady decline

Yet the TUC leaders are not brimming with confidence this year. They are aware that the steady decline in union membership will not necessarily be arrested by the election of a Labour government. Their best hope is to eschew politics and concentrate on providing a better service for their members. This week the TUC will consider holding its congress biennially rather than annually. This would create room for smaller industrial conferences, at which unions would focus on collective bargaining priorities rather than Government policy.

It would also continue the process that has made the unions less of a liability for the Labour Party, although there is still some way to go. Labour managed to avoid getting caught up in this summer's disputes. There will be decisive union support for the party's policy review at Labour's October conference. Mr Ron Todd, general secretary of the Transport and General Workers Union, remains opposed to the party's revised multilateralist defence policy, but the TGWU is now largely isolated on that issue.

Block vote

The links between Labour and the unions will not be broken, but they are being loosened. During the coming year the party will produce a plan to reduce the role of the union block vote at its annual conference. On this matter a compromise may not suffice: the public will not be convinced that Labour is a truly democratic party until the special union vote is ended.

Voters will also expect a clear statement of Labour's intentions for trade union legislation. The party's policy review document promises to remove what it lists as the "most objectionable" provisions of Tory legislation; one effect, it may be deduced from statements by some Labour front-benchers, is that secondary picketing would in many cases once again become lawful. The Conservatives will rightly attack this as a return to the bad old days. Labour remains particularly vulnerable on this, partly for substantive reasons, and partly because a willingness to return even half-way to pre-1979 practices suggests that the trade union leading-strings may never really be severed.

The forthcoming conferences will show which of the two major parties has the best chance of capturing the centre ground that is so rapidly being vacated by the disorganised and poorly led remnants of the former Alliance. If Labour is to consolidate the advances it has made this year, one prerequisite is that its relationship with the TUC and the union bosses should become at least as arms-length as that between the Democratic Party and organised labour in the US. It is still less than half-way there.

Deeply fried EC chip users

THE DEAL on exports of dynamic random access chips (DRAMs) from Japan to the European Community, announced two weeks ago, is intended to resolve a long-running dumping dispute. If it is put into effect, an industry producing a particularly important intermediate input will be cartelised on a global scale. Moreover, the EC has inflicted the higher prices upon itself about which it complained vociferously, when imposed by the US and Japan, unasked, exactly three years ago.

The anti-dumping policy of the EC is controversial. There are questions about whether the regulations lead to the finding of dumping when no dumping has occurred. There are doubts about the relevance of the concept of dumping. Last but not least, there is concern about whether (and when) actions against dumping are in the EC's economic interest.

The agreement on DRAMs raises the last (and most fundamental) issue in a pure form. An agreement covering not merely 256K and 1 megabit chips, but also the next generation of 4 and 16 megabit chips, cannot reflect actual findings of dumping. This is a pre-emptive, protectionist strike, one affecting a particularly important industry. Stripped of cant about whether a particular business practice is "fair," the action must be judged on the basis of whose good it serves.

Crocodile tears

One party that cannot be weeping more than crocodile tears are the Japanese producers. Courtesy of the Americans and now the Europeans an export cartel is being created, one that will prevent "ruinous competition" among their most formidable rivals, one another. With the floor price in the EC set at 9 per cent above the "production cost" of DRAMs for the next five years, each new generation is virtually guaranteed to bankroll development of the next. The Japanese can also be confident that the price to chip-users in Japan (most of which are the same companies as the producers) will often be below that to users in the two major competing economies.

But generous as the Commission is, helping the Japanese to dominate the world's semiconductor industry and improving the competitiveness of Japanese semi-conductor users cannot have been its prime objective. It also believes it is helping Community industry.

Market share

Prima facie, however, this is most implausible. Japan's share of the European market for DRAMs is about 50 per cent. It follows that, unless there is a large reduction in the Japanese market share, half of the benefit of the transfer of income from chip users to producers will go to Japan. From the EC's point of view, the benefits of this agreement can exceed the costs only if an Ecu in the hands of a European chip producer is worth twice as much as an Ecu in the hands of a user.

It is hardly surprising that the users – computer manufacturers, for example – deny that they waste money on this scale. Since they already pay a tariff on semi-conductors of 12 per cent, they fear that they will be handicapped in their competition with their Japanese rivals, the danger then being that protection will spread downstream.

Nothing could better demonstrate the point made by the committee chaired by Mr Olivier Long, former Director-General of the General Agreement on Tariffs and Trade, in its report, Public Scrutiny of Protection, recently released by the London-based Trade Policy Research Centre: "Policy initiatives, bearing on foreign trade, arise in a piecemeal fashion, are essentially industry-specific and are biased towards increasing protection."

While it is clear that direct subsidisation of chip production in the EC would be a more efficient policy than the minimum price agreement, nobody – and that certainly includes the Commission – knows the economic costs and benefits of this arrangement. This observation merely underlines the point made by the Long Committee: both governments and the wider community need a better understanding of the full implications of such decisions. Doing something about "unfair" trade may be justified, but not if the costs of the remedy exceed those of the disease.

Clay Harris and Roderick Oram on British Airways' proposed stake in United Airlines

Flight towards a global future

British Airways and United Airlines have never hidden their global ambitions under a bushel. BA, the self-proclaimed "World's Favourite Airline" now wants to take a 15 per cent stake in a carrier which, with similar immodesty, once called itself "The Largest Airline in the Free World."

Before glasnost had a chance to outdate United Airlines' slogan, competition did. A decade ago, United was the only US carrier to advocate deregulation. However, it fared badly in the new competitive era, the victim of misguided management, a sleepy corporate culture and poor labour relations. The final ignominy came last autumn when it lost to its archrival, American Airlines, the coveted ranking as the largest US carrier.

Now its parent company, UAL, faces a hostile $6.4bn takeover offer from Marvin Davis, a Los Angeles investor and former oilman. To head that off, United's management and two groups of employees – pilots and non-union staff – have joined BA in a $6.8bn buy-out offer which would create the largest employee-owned enterprise in the US. As part of the deal, the pilots have signed a seven-year agreement to work longer hours for less pay.

The impetus behind the sudden dawn of management-employee harmony at United is clear enough. But why has BA, with an unassailable position in its home market, decided to invest $750m for a minority holding in United? What advantages follow from partial ownership that could not be achieved through the existing marketing and reservation systems links between the two airlines?

Sir Colin Marshall, BA's chief executive, agrees candidly that he was motivated by a mixture of defensive and opportunistic motives. At the least, BA needs to protect its existing marketing arrangement with United; in the agreement's first two years, transfers between the two airlines have risen by 30 per cent more than the overall growth in passenger numbers. The two airlines together also control Galileo, one of Europe's leading reservations systems.

"If the deal went to a group which included another European airline, then our marketing agreement with United would go out of the door very fast indeed," Sir Colin said at the weekend. European airlines have been pressing ahead rapidly with financial links with US airlines: SAS has ties with Continental; KLM is proposing to take a stake in Northwest.

"When you look around in the US at the moment there is not much choice," Sir Colin says. "Most of the big ones are spoken for. Given the extent of our relationship with United, it would be very foolish for us to pass up this sort of opportunity, particularly when it makes financial sense as well."

But the chance to take a 15 per cent stake in United, and exchange directors with the US airline, opens a new range of opportunity for BA.

"As BA alone, we have access to about 18 per cent of the world's airline market; when you add United and BA together, we will have 48 per cent." No other single airline or mooted partnership can approach this level of penetration. Of the 168 destinations served by BA and 190 by United, only 31 are common.

Sir Colin says: "We have really only got our timetables well positioned to facilitate passenger transfers at four US airports. We have another 27 where we can do a much better choice." The most important 11 of these are in Australasia and the eastern edge of Asia.

BA is also hoping to introduce joint training schemes and perhaps even collaborate on some purchasing. "We should be able to derive benefits from further systems development – further than Covia and Galileo which are both centred on reservations and the actual sourcing of business," says Sir Colin. "There is a whole range of other systems-related areas where we can benefit from joint efforts, recognising that both of us are IBM-based."

The logic leads towards an eventual full merger, and Sir Colin does not dismiss the idea out of hand. But government and political sentiment on both sides of the Atlantic appear to rule out this prospect for some time to come. BA is trying to defuse objections to its role at United by making clear that it would welcome the US carrier taking a similar stake in BA when its finances permit. Moreover, it emphasises, two thirds of the 25 per cent of BA shares held outside the UK are in American hands.

At present, the US limits foreign ownership to 25 per cent, and KLM's proposed 20 per cent stake – the highest so far on the table – in Northwest has not yet been approved.

In the UK, the limit is not specified. "It is dependent entirely on the level of foreign ownership at which our British operating licences will be in jeopardy," says Sir Colin. "At the time of privatisation, we said we believed it was about 35 per cent. It has never been tested. Air New Zealand is 34.9 per cent foreign-owned, and nobody to my knowledge has challenged the integrity of their licences."

Despite rumblings from Washington about the current talk of highly leveraged airline takeovers and the voracious appetite for US carriers shown by European airlines, the buy-out is unlikely to be blocked by the regulators.

But the US will strenuously fight any pressure to remove the two road-blocks to creating truly global carriers: the 25 per cent ownership limit and the prohibition on foreign airlines carrying passengers between US cities. The US will probably only give these up in exchange for its carriers' equal access to the deregulated European skies of the 1990s.

In the current battle for United, the buy-out depends not just on outbidding Mr Davis, but also on getting the machinists and cabin staff to make similar concessions to those agreed by pilots and non-union workers. The pilots and machinists, especially, have a long history of mutual antagonism. "United's pilots are among the less enlightened and most self-interested in the industry," says one aviation consultant.

Success, however, would ensure that the airline has the cost structure, work practices and atmosphere necessary to bring to full fruition the revitalisation which has been achieved under Mr Stephen Wolf, UAL's chairman and leader of the buy-out.

"Where the industry turned right, we turned left," Mr Wolf said earlier this year. His predecessor, Mr Richard Ferris, embarked on a quixotic quest to create a global travel conglomerate at a time when UAL's competitors were pouring investment into their airline operations.

In the decade up to 1987, UAL invested $2.7bn on buying and building up the Hertz car rental and Westin hotel operations. The company invested only $5.8bn in United Airlines. AMR, American's parent, spent more than $10bn (including aircraft leases) to build its operations. As a result, United's domestic passenger capacity increased only 3.1 per cent a year, while that of AMR and several other competitors increased by more than 8 per cent.

The relative stagnation weakened its market power and contributed to the deterioration in labour relations, particularly with United's pilots. The blunt, belligerent Mr Ferris was no help. He pushed through, for example, a rule that executives riding in cockpits could give orders to pilots.

As a result of long, bitter strikes with cabin crews in 1984 and cockpit crews in 1985, UAL won the right to pay incoming staff less than old hands. But because United grew more slowly than its rivals, its labour costs have risen 1.7 per cent since 1982 while American's have fallen 5.6 per cent, according to Ms Candace Browning, the airline analyst with Wertheim Schroder in New York.

Ultimately, it was bad morale as much as poor financial performance that ended Mr Ferris's era. In 1987, the pilots offered to buy the airline from its parent, which helped to put the company in play. Coniston Partners, a group of three New York raiders, helped force out Mr Ferris, trigger the sale of Hertz and Westin and bring about a buy-back of $3bn of the company's stock.

The company brought in Mr Wolf to pick up the pieces. A tall man with a formidable reputation for rescuing troubled airlines, he gets the credit for yanking UAL most of the way back on track. He stands to make more than $50m on his UAL options.

"He has intense fundability," says one corporate financier. This will be put to the test lining up the money for the buy-out, although Sir Colin said on Saturday: "Bankers are lining up to lend money to the company."

In less than two years at the controls of UAL, Mr Wolf has invigorated the slow and cautious culture, reshaped the company's structure and hired new blood – about 25 per cent of its corporate officers were hired in his time.

United has greatly improved its service and marketing. It is also now much better at exploiting its big market shares at its main hubs of Chicago, Denver and San Francisco and at squeezing the maximum revenue out of its seats. Operating profits were up 47 per cent in the first half of this year from a year earlier. Mr Wolf even found time last year to get married for the first time at the age of 47.

He made one serious miscalculation, though. He told pilots and other employees, some of whom had been negotiating new contracts for two years, he would not order new aircraft until they agreed to pay and work-rule concessions.

Eventually, this May, he gave in and ordered 370 Boeing airliners worth $15.7bn without getting the new labour pacts. He could not afford to be pushed even further down the industry's fast-lengthening queue for new aircraft.

Until the latest buy-out idea surfaced, Mr Wolf had made little progress in winning over the pilots. For example, two new Boeing 747-400 airliners, worth $125m apiece, have sat on the ground all summer because the pilots have yet to agree terms for flying them. This hurdle was cleared in last week's negotiations.

The buy-out team cannot assume, however, that they have the deal locked up. Mr Davis, the rival bidder, is still a wildcatter at heart. Even if he has forsaken the oilfields for Beverly Hills, he is always on the prowl. He will be likely to push the buy-out price to the limit.

If BA and its partners win, the effect on United's domestic competition will be electrifying. Pan Am and TWA in particular will have to hasten their search for the partners they say they need to survive. "There's an awful lot of 'me-too-ism' in the airline industry," an analyst said. "Globalisation has barely begun."

"Pan Am and TWA will be the big losers," said Mr Morten Beyer, president of Avmark, a Washington aviation consultancy. "They will be forced into someone's arms."

Either one, but more likely Pan Am, could find a welcome at AMR, which under the restless and aggressive leadership of Mr Robert Crandall, will have to find a way to match the international power UAL will gain through BA.

But for BA itself, is the decision to expose itself so deeply to the cut-throat US market – especially through a leveraged bid – a wise one? It argues that it has no choice. Passenger traffic to and from the UK is forecast to grow by only 4 per cent per annum over the next decade, against a 6 per cent estimate for the world as a whole. BA needs to break out of its mature market, and the time is now right to enter the US.

"US airline profitability, particularly United's, is going to grow strongly," Sir Colin says. "They've sorted out their problems, leaving them far more efficient. Regulation has worked through, with the smaller competitors being bought up by the bigger ones. They've got a helpful regulatory environment, and United's got routes where there is very strong growth. Because the cash flow is so strong in this business, they can operate more successfully on a leveraged basis."

BA's participation has been carefully structured to avoid dilution of earnings; it could write a cheque for the $750m on existing borrowing facilities and still show a profit because it will be receiving a higher rate of interest on the bid vehicle's preferred stock. The auction of UAL, however, may have only begun. The first test for BA will be how the London stock market treats its shares today.

British Airways

Year end 31 Mar	Turnover £bn	Pre-tax profit £m	Employees
1985	2.9	191	36,861
1986	3.1	182	38,939
1987	3.3	162	39,498
1988	3.8	228	42,759
1989	4.3	268	48,760

United Airlines

Year end 31 Dec	Revenue $bn	Earnings $m	Average employees
1984	6.22	238.0	47,000
1985	5.30	(95.3)	47,000
1986	7.11	(112.8)	59,000
1987	8.30	(4.2)	64,000
1988	8.98	599.9	66,000

1988/89

	British Airways	United Airlines
Passengers		
Domestic	5.6m	[illegible]
International	16.9m	4.0m
Revenue Passenger Kilometres	56.9bn	111.1bn
Passenger load factor	68.7%	68.0%
Aircraft in service	215	434
Average age (years)	9.6	13.0
Aircraft on firm order	70	267
Destinations		
Domestic	16	172
International	147	18

Source: IATA

OBSERVER

On with the vendange

■ Thanks to the long sunny summer, the *vendange* in the French vineyards has started much earlier than usual this year, and looks set to produce some memorable wine. According to the Office National Interprofessionel des Vins (Onivins), 1989 should turn out to be "a very great year", on the assumption that the harvest is not spoiled by a last-minute downpour.

(The word *vendange*, by the way, is a sign of the importance of the French wine industry: any other harvest may be a *récolte*, but the wine harvest is a *vendange* from the Latin *vindemia*, itself from *vinum* and *demere*.)

In the Bordeaux region, harvesting started last week, on August 29, for the white wines of Château Haut Brion, and two days later for the reds. This is the first time since 1893 that the *vendange* has started in August, 10-15 days earlier than usual. In Cognac, the harvest is expected to start on September 25, three weeks earlier than normal.

Moreover, the quality of the harvest promises to be remarkable in most of the wine-growing areas. In Champagne, the local growers are already talking of a vintage year; in Burgundy the growers are starting to compare 1989 with the memorable year of 1976; the growers of Touraine speculate that this year's wine may be even better than 1976 if the weather holds, and may perhaps approach the quality of 1959.

The price to be paid for the long rainless months is that the quantity will be much less impressive than the quality. According to Onivins, the national total should be about 61m hectolitres, 7 per cent up on last year's harvest, the smallest for 20 years, but around 12 per cent less than the average for the previous five years.

Only in Burgundy is the size of the harvest likely to be in line with previous averages, because only Burgundy was spared serious drought.

Royal ways

■ Totally cut off from western communications for the past week or so, the only piece of news I heard about Britain was the separation of the Princess Royal from her husband. It made the headlines on Bulgarian television several times running and, in a country where the news tends to be dull, aroused great interest. A Bulgarian also told me that it had been recently reported that the Prince of Wales had taken off his jacket at luncheon and put his elbows on the table. Such is the influence of the British royal family, that this is now accepted practice in Sofia.

Unholy hurls

■ Hurling, as any Irish person will tell you, is the world's fastest field game. The ball can travel at 90 miles an hour off the "hurl" or stick the players use. Yesterday was the high point of the season, the All Ireland Final at Croke Park in Dublin, a sort of Superbowl, FA Cup Final and big match at Cardiff Arms Park rolled into one.

Tipperary played the rank outsiders, Antrim from Northern Ireland, who had not played in a final since 1943. Fast and furious it went from end to end, as the sports writers say. But the northern dream was not to be. Not even Niall Patterson, the 18 stone Antrim goalkeeper, could stop Tipperary running away with the match.

Hurling is seen as very much a Roman Catholic game. At least one cardinal and a whole bevy of bishops and priests watched the Dublin final. Neil Kinnock, the leader of the British Labour Party, was also there.

But the Unionist mayor of Ballymena, one of the main towns in Antrim, said he did not watch it. "Sunday is the Lord's day. Protestants tend to leave hurling alone."

"I can't wait for the All-clear"

Pivot's exit

■ The literary world in France is reeling from the blow: after 15 years at the top of the charts, the television programme Apostrophes, chaired by the engaging Bernard Pivot, is coming off next summer. The decision was announced by Pivot during last Friday evening's broadcast, but so far no plausible explanation has been forthcoming.

Malicious voices – always in a majority on the French intellectual scene – suggest that Pivot is retreating in the face of the competition from a rival literary programme, Ex Libris, on the commercial channel, TF1. But this does not square with Pivot's remarkable success in holding a regular audience running into the millions.

It is in any case a cause for dismay. By and large, the quality of most French television is low, and only the most determined optimist will have faith in the latest reforms introduced by the Socialist government. The Pivot programme has long been an exception, even though it consists "merely" of a 75-minute discussion of half a dozen new books between Pivot and their authors. John le Carré will be among them before the series goes off.

Levelling up

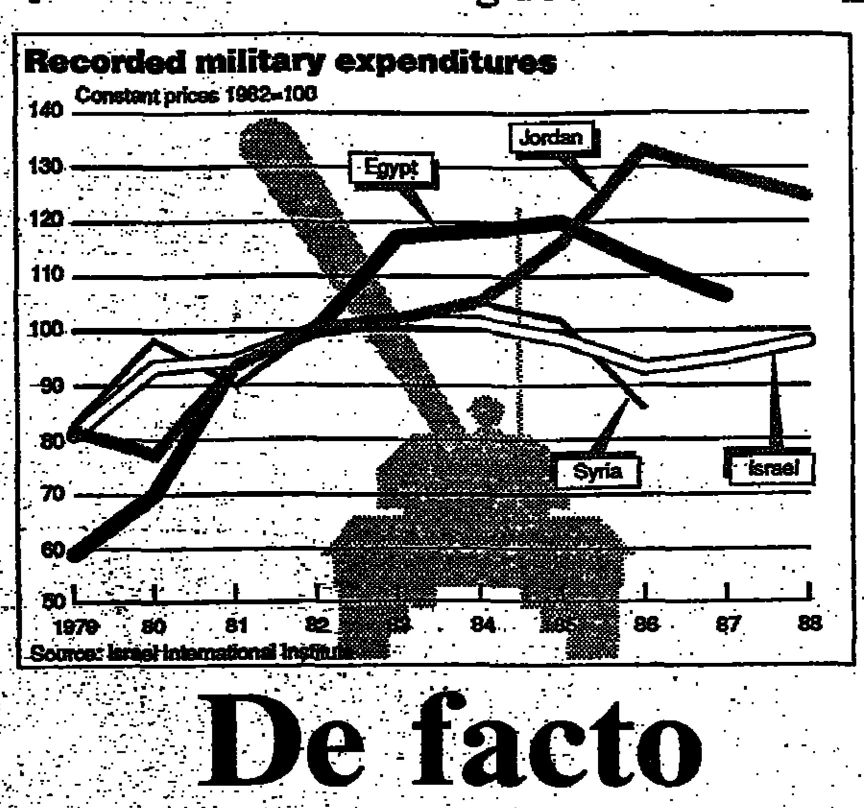
■ David Steel's new book – Against Goliath – will be reviewed in its proper place. A story about the late John Mackintosh, however, is worth retelling.

As a Labour MP and academic, Mackintosh was proud of having addressed trade union meetings in Frankfurt and Glasgow on the same day and on the same theme of brotherhood in Europe. "In Frankfurt," Steel recounts, "he had been met by a chauffeur-driven car and taken to the union headquarters, where the glass doors had automatically slid open, and he gave his talk in a warm, carpeted lecture room, complete with visual aids. Catching a direct flight to Glasgow, he had to take a bus-ride from the airport, make his way to the Keir Hardie Hall, climb the stone stairs with chipped dark-brown wall paint and settle in a room with rickety wooden chairs and a bare light bulb. At the end of his persuasive address, a voice said: 'But John, ye dinna understand. We're no goin' tae be dragged doon to their standards.'"

Darker Sussex

■ From an advertisement in a West Midlands newspaper: "For your late holiday, why not give yourself a change and be adventurous? Join our five-day safari to Brighton."

Hugh Carnegy and Tony Walker on the scaling down of Middle East defence spending



De facto disarmament

When diplomats and strategists talk about the military balance in the Middle East, as often as not they warn of the dangers of a big arms build-up in the region. Yet recent evidence suggests, remarkably, that in Israel, Egypt, Jordan and Syria, the four neighbours at the centre of the Arab-Israeli conflict, defence spending is being scaled down significantly – mainly as a *consequence of domestic* economic problems.

Israeli economists who have analysed the trend like to call it "unco-ordinated disarmament." That may be an overstatement, as purchases of sophisticated missiles, planes and other weaponry, especially by other Arab states such as Iraq and Saudi Arabia, have gone on apace. Established armouries in the region are more than enough to sustain war on a frightening scale, especially given the proliferation of chemical weapons.

But there are strong signs that, without any of the paraphernalia of formal arms or peace negotiations, the governments in Jerusalem, Cairo, Amman and Damascus are separately having to trim their defence budgets in a way which could have a longer-term effect on military tensions in the region.

Latest figures from the International Institute of Strategic Studies (IISS) show that total domestic military spending (excluding external aid) fell in Egypt in 1988 to $3.2bn from $3.4bn in 1987. Likewise, in Israel it fell to $3.7bn from $3.9bn, in Jordan to $631m from $703m and in Syria to $1.5bn from $1.8bn.

Such a trend follows a long period in which the four countries established, by international standards, huge levels of defence spending as a proportion of national income as their fraught relations were punctuated all too frequently by war. Economists at the Israel International Institute (III), an independent think-tank in Tel Aviv, believe now, however, that there is a growing recognition by the four that economic regeneration requires cutting defence budgets.

A striking measure of how much of their resources the four poured into defence lies in the proportion of military spending to gross national product. In developing countries, the average is about 8 per cent. Organisation for Economic Co-operation and Development countries spend 4.5 per cent of GNP on defence and the US up to 6 per cent. In Israel and Syria the figure peaked in the 1980s at around 25 per cent and in Jordan at around 20 per cent. The proportion in Egypt has been lower, but still stands at some 12 per cent, a huge level by international standards.

These staggering commitments to military spending grew rapidly over the past two decades, fuelled by the Six Day War of 1967 and the Yom Kippur War in 1973. In each case, the outlays were bolstered by heavy injections of foreign assistance – the most notable being the billions of dollars channelled annually to Israel and to Egypt by the US. The III estimates that aid assistance has averaged about 40 per cent of total spending, but notes that the balance still amounts to an enormous burden on the region's economies.

Professor Eliezer Sheffer, one of the authors of a forthcoming III study of regional economies, notes that each of the four Middle East neighbours has been characterised recently by heavy foreign debts, large fiscal deficits, balance of payments problems, a bias towards non-tradeable sectors and other damaging distortions. And, he suggests, it appears that governments have accepted the conclusion that reversing such positions implies cutting at least the domestic component of defence spending.

In addition, the four countries are also subject to pressures from their outside suppliers of military aid.

As a result of all these trends:

● In Israel, there was an 8 per cent cut in domestic military expenditure between 1984 and 1986 when the Government finally began to tackle huge budget deficits and triple digit inflation. More recently, the cost of combatting the Palestinian uprising in the West Bank and Gaza has put upward pressure on current defence spending. But economic stringencies prompted the cancellation in 1986 of a very expensive project to build a locally-developed jet fighter, the Lavi. Ministers now accept that the defence burden limits attempts to reform the economy. US aid has also begun to decline in real terms.

● In Egypt, similar pressures are at work. One of the main reasons advanced for the sudden removal from office in April of Field Marshal Abdel Halim Abu Ghazala, the powerful former Defence Minister, was that he became embroiled in an argument with President Hosni Mubarak over the defence budget. One of the first tasks that General Youssef Abu Taleb, Ghazala's successor, embarked on was a review of military expenditures.

Egypt's military is perhaps in a slightly more fortunate position than those of Syria, Jordan and Israel. It was empowered by the late President Anwar Sadat to generate and control its own revenues from military industries, and from other business activities such as contracting. "Such a move was very radical. It gave the military a great measure of financial autonomy," says Gehad Auda of Egypt's Centre for Political and Strategic Studies. Egypt's economic crisis has inevitably squeezed funds available for the military. At the same time the winding down of the Gulf War has reduced Iraq's demand for Egyptian-produced small arms and ammunition, worsening the financial squeeze on Egypt's military.

● *Jordan's economic crisis*, highlighted by price riots in April, has inevitably had an impact on military spending. An early casualty was the proposal to purchase eight Tornado attack aircraft from the UK. The deal has been postponed, and may well be cancelled. There is little prospect of substantial new equipment purchases in the short-term. A Western defence attaché in Amman says that, while there appeared to have been no reduction in the "operations and maintenance" budget of the military in local currency terms, the rapid depreciation of the dinar in the past year meant that spending in real terms is down by about 20 per cent.

● *Syria's own economic difficulties*, plus the cost of its occupation of Lebanon, are also squeezing military expenditure. The Syrians have the added difficulty that the Soviet Union, its main benefactor, is adopting a much tougher approach to new equipment sales.

Moscow has been telling Damascus that it must begin making payments on its estimated $15bn Soviet military debt. Defence experts note that deliveries of more sophisticated aircraft such as the SU-24 have been delayed, partly because of Syria's inability to pay. Payment difficulties are also believed to be holding up deliveries of some missiles and advanced fighter aircraft.

Domestic economic pressures and pressure from foreign backers may not be the whole story. Egyptian defence experts say that military expenditures were in any case set to slow following the peace treaty with Israel and a process of democratisation and liberalisation at home. For perhaps the first time since the 1952 revolution, there have been public calls domestically for a reduction in military spending.

Mr Heino Kopietz, a defence economist at the IISS, says one of the important factors in the slowdown in Middle East arms purchases is that countries had reached "saturation point" in terms of absorbing new equipment. Egypt for example did not have the skilled manpower to operate new squadrons of sophisticated aircraft beyond those it had already taken delivery of, such as the Mirage 2000.

"Barring a conflagration or military takeover in any of these countries, [spending on new equipment] is on a down-slope until major re-equipment is required," Mr Kopietz says. Ian Anthony, a researcher at the Stockholm International Peace and Research Institute (Sipri), says that the latest figures on arms purchases for the region show a marked reduction in spending from $11.5bn in 1987 to $8.1bn in 1988.

Sipri's research, which focuses purely on equipment purchases and on deliveries of big items, reveals that Egypt spent $300m in 1988 compared with $2.3bn in 1984; Syria spent $1.1bn last year compared with $1.6bn in 1984; Israel's spending on equipment imports reached $300m compared with $1.6bn in 1987 (mostly accounted for by purchases of F-16s to compensate for the cancellation of the Lavi), and in Jordan expenditure was $270m compared with $165m in 1984.

Whatever the exact combination of reasons for the check in defence spending in the four countries, a trend seems to have been established. The region's chronic instability may well conspire to upset the tense peace which prevails at present between them. Nor do lower levels of military expenditure carry guarantees against war. But Israel's Professor Sheffer points out that the build-up in spending took on a life of its own as one country responded to the perceived increase in threat from the other. "Now it is possible to imagine that there might be a corresponding downward dynamic," he says.

LOMBARD

Thinking about drug legalisation

Martin Wolf

DRUG users commit at least 40 per cent of all property crime in the US. No fewer than 250,000 American drug users are infected with AIDS. Colombia faces a direct challenge to the state, with its system of criminal justice in ruins.

The natural response to such evils is to intensify the anti-drug crusade. But casual examination of the list shows that they are all the effect not of drugs, but of their illegality. They are, in the words of a pamphlet* by James Ostrowski for the Cato Institute, an influential, free-market-oriented think tank, the "cost of criminalising an activity in which all participants are willing."

When public policy is failing on so grandiose a scale, it is natural to ask whether it makes sense in the first place. The basic economics of the black market in drugs sharpen the question. Precisely because demand is little affected by price (this being, after all, the economic meaning of addiction), the more supply is cut back, the greater become both the incentive and the resources to expand it once more.

The total value of black market drug sales in the US is estimated at $80bn, this turnover being derived from drugs with intrinsic costs of production and distribution of no more than a tenth of that sum. The huge rewards – dwarfing expenditure on law enforcement – are a direct measure of the success of the policy of prohibition and explain its equally ineluctable failure.

Mr Ostrowski dares to think the unthinkable. He presents a case for legalisation (or, at the least, decriminalisation) of hard drugs that, if not unanswerable, clearly demands an answer. He notes that the fact that a drug is harmful is not a sufficient justification for prohibition. Nor is the fact that prohibition may reduce use of a given drug. The question is, instead, whether the costs of legalisation would exceed those of prohibition, one whose force derives from the damage done by prohibition.

In his pamphlet, Mr Ostrowski argues that the case for legalisation is sustained if *any* of the following propositions is true: (1) prohibition has no substantial impact on the level of illegal drug use; (2) prohibition increases illegal drug use; (3) prohibition merely redistributes drug use from illegal drugs to harmful legal drugs; or (4) even though prohibition might decrease the use of illegal drugs, the negative effects of prohibition outweigh the beneficial effects of reduced use of illegal drugs. He relies largely on the last, first and third points.

What then are the costs of prohibition? It criminalises users, increases their disrespect for the law and forces them into contact with professional criminals. It offers a lucrative criminal life to entrepreneurial young people from impoverished backgrounds, destroys the economic viability of poor neighbourhoods through drug-related crime and leads to violent gang warfare. It greatly increases the danger of the drugs themselves, because they are impure, are often injected with unsterilised needles and are used in more powerful and life-threatening forms (thus giving the user more bang for his bucks).

The economic costs of prohibition include the waste of resources in the illegal industry itself, the expenditures on health required to tackle such by-products – not of addiction, but of illegality – as the spread of AIDS, and the lack of information and quality control which cause overdoses. Huge sums are also being spent on law enforcement, $10bn a year in the US alone.

Mr Ostrowski argues that "at least 80 per cent of deaths from illegal drugs today are attributable to the effects of drug prohibition." Tobacco and alcohol are, he suggests, both more lethal per user from the pharmacological point of view, while there is little evidence that the pharmacological effects of hard drugs themselves cause either crime or accidents.

With so huge a proportion of the costs attendant on prohibition, what are its benefits? Those benefits are, of course, the costs associated with the additional drug use that would follow from legalisation. In considering these costs, it is important to remember that any given amount of legal use is much less socially damaging than an equivalent amount of illegal use. For the costs of legalisation to exceed those of prohibition there would have to be a substantial increase in drug use.

There is reason to doubt, however, whether legalisation would lead to an explosion in overall drug abuse. One reason is the likelihood of drug switching. Furthermore, narcotics were freely available in the US and UK during the nineteenth century, but use peaked and then declined long before prohibition was adopted. In the US the use of narcotics per head was no higher before prohibition than it is today.

Nor are the hard drugs uniquely addictive. Mr Ostrowski quotes the Surgeon General of the US as stating that "the pharmacological and behavioural processes that determine tobacco addiction are similar to that that determine addiction to drugs such as heroin and cocaine." A survey by the National Institute on Drug Abuse indicates that the proportion of repeat users of cocaine is only 24 per cent, far below that for tobacco.

In short, there is little reason to fear that legalisation would be followed by an explosive increase in addiction to hard drugs. It is more likely that, at least in the US, anyone who wants to is already getting them. It has proved impossible to keep drugs out of prisons. What chance is there of keeping them out of countries?

The popular choice for President Bush will be tougher action. He may suggest stricter penalties on users, but this will largely increase the criminalisation of society. Meanwhile, the main effect of enhanced efforts to limit supply will be to make American streets still more dangerous and increase the rewards to successful drug runners. Thomas Sewell has written that "policies are judged by their consequences, but crusades are judged by how good they make the crusaders feel." Is it not time to try policy again, with decriminalisation the obvious starting point?

**James Ostrowski, Thinking about Drug Legalisation, Policy Analysis No.121, Cato Institute, Washington D.C.*

LETTERS

The question of Estonia

From Mr Valdis Liepins.

Sir, I would suggest that it is Professor Vladlen Tishchenko (Letters, August 25) and not James Blitz (August 17) who overstates matters concerning Estonia's new election laws.

Moreover, it is somewhat ironic that his letter appeared on the 50th anniversary of the Soviet-Nazi pact, which paved the way for the annexation of Estonia, as well as Latvia and Lithuania, into the Soviet Union. This annexation was illegal. To this day it is not recognised by the western democracies. So the Soviet constitution may remain in force, but it has no legal basis and therefore no legal application in Estonia. The only Soviet thing that can prevail there is military force.

Because the Estonian Soviet Socialist Republic's constitution is also a result of (Soviet) occupation, it too has no legal standing. Clearly there is a constitutional vacuum which would most appropriately be filled by a new constitution of the Estonians' choosing.

In the meantime Estonians have to act as best they can in the circumstances. Part of these circumstances – a serious threat to their existence as a nation – is the continuing heavy influx of Russians in response to the forced, economically irrational industrialisation of Estonia imposed from Moscow. Professor Tishchenko euphemistically refers to this as "natural migration of manpower." Most of these migrants – some after decades in Estonia – do not even learn the Estonian language.

So it is understandable that Estonians have doubts about the fitness and appropriateness of such "residents" to participate in Estonian elections, and in the determination of Estonia's future. If anything, in an attempt to achieve an accommodation in present circumstances, the Estonian Supreme Soviet has probably been too liberal in setting the residential requirements in its new election laws.

Let me pose a question. Would Professor Tishchenko think it reasonable for Nazi occupying forces and settlers to participate in Soviet elections if Hitler had won the war and occupied the Soviet Union?

Valdis Liepins,
84 John Street,
Toronto, Canada

'Keep an open mind'

From Mr John Jenkins.

Sir, Following David Richardson's well-argued, balanced article (August 22) on nitrate pollution, I was flabbergasted and appalled to read Tom Spencer's letter (August 25) attacking it as a one-sided, blinkered approach.

We are all concerned with pollution, but it is important not to take up extreme positions which are not supported by facts. As Lord Lewis, the eminent Professor of Chemistry at Cambridge University, said recently, he has repeatedly asked for evidence to show that nitrate levels of 100 parts per million are harmful, and failed to get it.

We are in danger of adopting positions which will unnecessarily increase the costs of food and water significantly – the consumer will ultimately have to pay those costs. We could also be in danger of removing from food production large areas of good land. This is not the right way to deal with surpluses, and carries at least the risk of creating real food shortages in the not too distant future (far worse than food surpluses).

But I will keep an open mind. Tom Spencer more or less admits the flimsy nature of any medical evidence to support the present proposed drastic reduction in nitrate levels. But he says that there are other reasons for such a reduction without saying what they are.

If he now produces evidence to substantiate such an argument, we must certainly examine it with great care. If not . . .

John Jenkins,
Childerley Hall,
Dry Drayton, Cambridge

Drinking water is different

From Dr Geoffrey Myddelton.

Sir, Debate about the purity of water (Letters, August 25) is based on the erroneous assumption that there need be only one supply for all purposes.

London water contains purified sewage and smells like it. It is impossible to supply pure water for every purpose – and unnecessary. Drinking and cooking water, including supplies for the manufacture of food and drink, should be absolutely pure and uncontaminated by sewage, pesticides, nitrates or other fertilisers. It could be supplied to cities by pipeline, metered and charged for at an economic rate.

Any competent authority would be planning it now.

Geoffrey Myddelton,
Blue Moon,
1867 Glutières sur Ollon,
Vaud, Switzerland

VAT revisited

From Mr Edward Troup.

Sir, The flaw in Professor Eilon's reasoning (Letters, August 24) is to assume that just because a company is VAT-registered, it can reclaim VAT charged to it.

A further important condition must be satisfied before VAT can be reclaimed: either the company must only make VATable supplies or the VAT it seeks to reclaim must relate only to the making of VATable supplies. EC law requires us to exempt from VAT such matters as transactions in securities, financial transactions and insurance. The effect is that large numbers of businesses make some exempt supplies, and cannot reclaim all the VAT charged.

Thus it is not just members of the public who bear the burden of VAT, but any business, some or all of whose supplies are exempt. If the ability to de-register, or not pay VAT, is extended to all suppliers to VAT-registered persons, there would be a loss of tax which could be very significant. If, on the other hand, the proposal is confined to supplies made to fully taxable persons, it would in practice limit its advantages to such an extent as to make it unattractive.

I suspect that until the European Commission and the UK Government can be persuaded to remove exemption from the VAT system, Professor Eilon's suggestions will not find favour with the Chancellor.

Edward Troup,
14 Dominion Street, EC2

From Mr Graeme Hammond.

Sir, It was refreshing to read Steve Franklin's account of his visit from the VATman (August 19). However, Mr Franklin's version of the penalties of sending in VAT return and payment late was not quite accurate.

After two defaults have occurred within a 12-month period a written warning is sent. A third default within 12 months of the second leads to a surcharge of 5 per cent of the tax due, with subsequent defaults attracting surcharge at rates increasing in stages of 5 per cent to a maximum of 30 per cent. Subject to certain conditions, anyone who is surcharged has a right of appeal to an independent VAT tribunal.

The VAT system allows at least one month and at most four months – an average of two and a half months – in which to collect tax before it has to be remitted to Customs and Excise. Also, traders may take credit for VAT on their purchases whether or not they have settled their supplier's account. As Mr Franklin discovered, for many traders VAT registration can provide a significant cash flow benefit.

Graeme Hammond,
HM Customs and Excise,
22 Upper Ground, SE1

Pension scheme risk and reward

From Mr T.S. Shucksmith.

Sir, Miss Sue Ward is correct to reject an insurance company analogy for a defined benefit scheme in which the employer meets the balance of cost (Letters, August 22). But such a scheme is not a charity either, because in essence the trustees are dispensing the employer's money.

To be fair to Mr Redman (Letters, August 12), many private sector employers have given more than they promised under the scheme, whereas the public sector schemes have given what they promised – no more and no less.

The pity is that the private sector benefits which were promised represented inadequate pension provision. This is not surprising considering the risks involved for the employer.

May I suggest that the risks and schemes should operate more like insurance companies, with the employer's risk limited, and the members entitled on a "with profits" basis to what the scheme's funds can provide? It is legally possible to establish final salary schemes on this basis, and to control them actuarially. Why isn't everybody doing it?

T.S. Shucksmith,
Shucksmith & Co.,
Lincoln House, Nutley Lane,
Reigate, Surrey

FINANCIAL TIMES
Monday September 4 1989

Janet Bush
on Wall Street

Manhattan faces the social spiral

IT IS no longer possible for the business community of Manhattan to ignore the spiralling social problems of the city where most of its employees live and where it has to pay its taxes.

The crisis of education in New York's schools is a grave long-term concern for businessmen who need to be able to rely on a healthy stream of skilled workers for the future. The chronic lack of affordable housing is another major problem for its potential workforce. The scourge of drugs is a third issue.

"Ten years ago, you could neatly divide business and social issues. That is no longer possible," said Mr Sandy Bayer, vice president of Economic and Commercial Development in the New York City Partnership.

The Partnership, founded in 1979 by Mr David Rockefeller, is an organisation of leaders of business, education and non-profit groups whose aim is to help improve the social and economic climate of the city.

It is not, as one might expect, simply a pressure group concerned with maximising corporate tax breaks and the like.

Mr Ronald Shelp, its president, notes that the Partnership is the biggest builder of affordable housing in New York, working with the city authorities in joint ventures.

The Partnership, whose membership is a roll call of the city's business leaders, uses its considerable business skills to find financing, select developers, market building schemes and work through the inevitable bureaucracy.

The second major thrust of the Partnership's social efforts is in the field of education. An example of their work is a software package developed for the Partnership by IBM and Touche Ross which keeps track of where teachers are needed around the city and what teachers are available.

This is not mere philanthropy. Encouraging improvements in education and living conditions are deemed crucial for the future of the city as a business and financial centre.

In June, the Financial Services Task Force of the Partnership released a detailed report on what should be done to preserve New York's status as the world's financial capital.

Inevitably, chief executive officers in the financial services industry are heavily represented in the Partnership. The industry has accounted for 35 per cent of the net private sector job growth in the city since 1977 and generates an estimated $2.8bn in city and state tax revenues, sorely needed to cope with a deluge of demand for social services.

Financial services companies rely on New York city residents for 70 per cent of their workforce and nearly 60 per cent of total jobs in the industry are clerical.

The industry is already under severe competitive pressure and lost 3,000 jobs in 1988 after years of steady growth. Other financial centres, particularly overseas, are attracting more and more business.

The reduction in trading volume after the October 1987 stock market crash put Wall Street firms under severe pressure to cut costs and this has meant many have re-examined the advantages of doing business in New York which is so costly.

With the benefit of advanced technology, many firms have already moved back office operations out of Manhattan. Mr Shelp cites an extreme example of a New York life insurance company which has its back office operation in the Republic of Ireland.

"The big issue for us is to stop the front office moving out as well," said Mr Shelp.

One of the key reasons keeping firms in Manhattan is demographic. The metropolitan New York area simply has more people in the right age group than other cities to supply the workforce and it is crucial that they are adequately educated and housed within striking distance of Manhattan.

Among the recommendations of the taskforce are that women should be encouraged to enter the workforce by providing better child care, that the city should ensure it has a top rate telecommunications infrastructure and - yes - that the overall tax burden on companies should be reduced.

Mr Bayer, who has been working on the telecommunications side of things, comments: "In the end, self-interest and helping in social areas such as education merge. We don't expect a quick return but, in the long term, a better city is in all our interests."

Pressure on Mazowiecki grows

By Christopher Bobinski in Warsaw

MR Tadeusz Mazowiecki, Poland's newly-appointed Prime Minister, is coming under pressure to speed up his efforts to form a Solidarity-led coalition government which will contain representatives of all of Poland's official parties, including the Communists.

The Prime Minister originally promised to have a government ready for parliamentary approval by the end of last month. Under the Polish constitution new elections have to be called if Parliamentary approval of Mr Mazowiecki's team has not been obtained by September 18.

Solidarity's parliamentary group is expecting a list of names to be presented to it tomorrow.

Mr Bronislaw Geremek, the group's parliamentary leader, met the Prime Minister yesterday to impress on him the need for quick decisions. But yesterday evening, Mr Jerzy Urban, the present head of radio and television, said he would be surprised if a list of nominees would be ready by tomorrow.

Mr Mazowiecki held his first talks with Mr Mieczyslaw Rakowski, the Communist Party leader, and Mr Marian Orzechowski, the party's parliamentary chief, at the weekend on the role the Communists would play in the Government.

It has always been accepted that they would retain control over defence and the Ministry of the Interior, but Mr Rakowski threatened that his party would go over to being "a constructive opposition" unless they received further portfolios.

The Communists are thought to be demanding to retain control of the Foreign Ministry and the Cabinet office, to have a major say over radio and television, and to have one deputy premier.

Mr Rakowski said his party had been promised posts "affecting all the major areas in society."

Mazowiecki: deadline looms

Yesterday, too, Mr Kazimierz Olesiak, the present Farming Minister and a member of the Peasants Party, attended a harvest festival ceremony at the Czestochowa national shrine for the first time after the Government's own separate ceremonies were cancelled at the last minute. Mr Olesiak is his party's nominee for the farming post, which was promised to the Peasants Party by Mr Lech Walesa, the Solidarity leader, without consulting Rural Solidarity, his supporters in the countryside.

Yesterday Mr Jozef Slisz, head of Rural Solidarity, told the tens of thousands of farmers assembled at the shrine that he trusted the farmers' demands would be noticed.

Mr Slisz signalled his opposition to Mr Olesiak's re-appointment as Farming Minister by attacking the Peasants Party as "mere representatives of the Communists in the countryside". He said his movement would form a basis for a new political party for farmers.

US Congress presses Bush for Polish aid boost, Page 3

British shippers call for inquiry into rate accords on US routes

By Kevin Brown, Transport Correspondent

THE EUROPEAN Commission has been asked to investigate the legality of a rate-fixing agreement between a group of leading shipping lines operating between Europe and the US.

A complaint filed by the British Shippers' Council (BSC) says the North Europe/USA Rate Agreement (Neusara) breaks at least two European Community competition regulations.

The complaint is the latest move in a long-running battle between shipping conferences and shippers' councils in the UK and other European countries.

Shipping conferences are associations of shipping lines which fix rates and service schedules. The shippers' councils, which represent the owners' cargoes, claim the conferences are price-fixing cartels.

The Commission has the power to ban or amend the Neusara agreement if it finds the shippers' claims proved. However, this could lead to a clash with the US, where the agreement has been filed with the Federal Maritime Commission.

In a detailed submission to the Commission, the BSC claims the Neusara agreement creates a super-cartel covering all the routes between northern Europe and both US seaboards.

These were covered by three separate conferences for the Atlantic, Gulf and Pacific coast trades until Neusara took effect in mid-July.

Shipping conferences were granted a block exemption from EC competition law in 1986 as long as they meet broadly defined competitive criteria.

The BSC claims the Neusara agreement breaks regulations 4056/86 and 1017/68 by extending price fixing arrangements to the whole of a cargo voyage, rather than just the ocean leg.

This would mean, for example, that shippers could not avoid using a conference line to the US west coast by using a rail, road or inland waterway service from an east coast port.

The agreement is also said to be anti-competitive on several other grounds:

● The BSC submission draws attention to provisions apparently allowing selective pricing of commodities and cargo allocation between shipping lines. The council says this allows conference lines to drive independent niche operators out of business by sharing the costs of operating at a loss.

● Other provisions would allow the Neusara lines to control credit and other payments jointly, and share information about "bad debts." The Commission has "come down very hard on this in other areas of business," the BSC says.

The council claims the Neusara lines have 55 per cent of the North Europe to US market. The parties to the agreement are P & OCL, the container shipping arm of Peninsular and Oriental Steam Navigation of the UK; Hapag Lloyd of West Germany; Nedlloyd of The Netherlands; SeaLand of the US; Compagnie Generale Maritime of France; and Atlantic Container Lines, a consortium of six European container shipping companies.

The BSC is also pressing the Commission to reach a quick decision on an earlier complaint about a separate rate fixing agreement known as Eurocorde. This agreement was between Polish Ocean Lines, Evergreen of Taiwan, and the North Europe US Atlantic Conference (NEAC), a forerunner of Neusara.

Separately, the BSC and other European shippers' councils have been in conflict with seven major shipping lines over a complaint by conference operators that Hyundai of South Korea offered unfair rates between Europe and Australia.

Hyundai denied the allegation, with strong support from shippers' councils, which saw the company as a source of legitimate competition. However, the Commission ruled in favour of the conference lines and imposed a 25 per cent redressive duty on Hyundai.

Banks seek bond deal for Mexico debt plan

By Stephen Fidler, Euromarkets Correspondent in London

COMMERCIAL banks negotiating details of a new debt agreement for Mexico have approached the Bank of England to see if it is willing to make an unprecedented issue of zero-coupon British government bonds to support UK banks' participation in the deal.

Similar approaches have been made to other central banks and financial authorities including the US Treasury by the leading commercial banks. The US Treasury has in the past issued zero-coupon bonds to support a debt exchange for Mexico.

As part of the proposed agreement between Mexico and its commercial bank creditors covering nearly $53bn of medium and long-term bank loans to Mexico, banks will be able to swap their loans for bonds either at a 35 per cent discount to face value or carrying a fixed 6¼ per cent interest rate. These bonds will be supported by official resources used to purchase high quality zero-coupon securities.

Most bank lending to Mexico has been in dollars, but banks have been allowed to lend in their own national currencies, and might, under the agreement, be given the option to switch into bonds denominated in their own currencies. If British banks are to do this, then they need high-quality sterling collateral which only the UK Government can provide.

The Bank of England's initial response has been unenthusiastic. Officials are apparently unconvinced that the use of sterling is necessary and that even if it were, an issue of sterling bonds would be the only solution.

Furthermore, the unprecedented issue of zero-coupon gilts would create a new class of bonds in the UK with a new maturity. Because of the UK Government's full-funding policy – which means that it counteracts its budget surplus by buying back gilt-edged securities – will mean that it would have to buy in other gilts to offset the issuance of new zero coupon stock.

UK banks are thought to be owed about $5bn by Mexico, of which less than $1bn is denominated in sterling.

The accord, agreed in principle in July between Mexico and its 15-bank advisory committee led by Citicorp of the US, had been expected to be finalised by the end of August, but has proved more complicated than expected. Bankers are now hoping for completion over the next week or two – with the issue of currency choice likely to be one of the last to be settled. Then it will have to be marketed to the country's nearly 500 creditor banks. While banks view currency choice as desirable, it would not necessarily block the agreement if it was unavailable.

CHILE has reached an accord for a $95m one-year stand-by agreement with the International Monetary Fund, retired General Enrique Seguel, the Minister of Finance, announced in Santiago.

The minister said the IMF agreement, as well as other accords with multilateral organisations, helped to pave the way for Chile to use the Brady Plan for debt reduction. He added that Chile would demand benefits equal to or better than the 35 per cent debt reduction achieved by Mexico. Page 2

BA wins pledge from United Airlines pilots

Continued from Page 1

him. However, at least a neutral stance by the pilots is essential to his success and they now appear committed to the consortium.

Sir Colin Marshall, BA chief executive, said at the weekend that BA entered the fray through a mixture of defensive and opportunistic motives.

If the bid fails, he said: "We can continue to do what we are doing now, provided the commercial agreement remains in place. But if UAL was acquired by a consortium including a Lufthansa, an Air France or an Iberia, the commercial agreement would collapse and we would be left scratching around to see what we can do to replace it."

The search for transatlantic aviation alliances was underlined yesterday when American Airlines and West Germany's Lufthansa said they were discussing a marketing agreement and closer links between their reservations systems.

More details of the funding of the consortium's bid also emerged yesterday. The offer will require nearly $7bn to be raised; of this, $1bn will be equity or preferred equity, $6bn will be debt. Unusually for a leveraged bid of this size, however, all of the latter will be bank borrowings and no high-yielding "junk" bonds will be issued.

This is expected to save about 2 percentage points on the interest rate and to avoid the obloquy attaching to junk bonds in some quarters. The consortium expects to pay a rate of 12 to 13 per cent for half of the $6bn, and 1 to 2 points less for the Esop's $3bn portion.

Of the $1bn cash needed by completion, BA will provide $750m. About $10m will come from United executives and the balance from an unspecified source in the consortium, probably from one or more pension funds.

BA's constribution is split into undisclosed proportions of interest-bearing preferred stock and non-income-bearing securities which eventually will convert into the 15 per cent equity stake.

Mr Derek Stevens, BA finance director, said the airline would receive an 11 per cent yield on its overall investment. If it decided to do this entirely with debt, BA would actually enhance earnings per share because it can borrow dollars at a lower rate.

Pretoria may try to reschedule

Continued from Page 1

wealth Foreign Ministers also endorsed this approach.

Mr Stals, who became Governor last month, declined to say whether any creditor had made use of the exit clause for political reasons. But he confirmed that $4bn in short-term debt had been converted since the standstill was imposed in 1985. At the end of last year, some $9bn in debts still remained within the moratorium "net", but he expected that to fall to $8bn by June.

Pretoria's foreign debt would then total $20bn, he said: $8bn within the net and $12bn outside it. Repayments in 1990 would total $2bn; this would include amounts falling due on maturing bonds and notes outside the net. A further $1.5bn would be repaid in 1991. From 1992 to the end of the century, however, South Africa's debt repayments would not exceed $1bn annually, Mr Stals said, noting that this would be a satisfactory maturity structure for Pretoria.

Michael Holman, in London, adds: The package of financial sanctions, drawn up in Canberra last month by the eight-nation group of Commonwealth foreign ministers, will be high on the agenda at the organisation's heads of government conference in Kuala Lumpur in October.

The measures include an official lobbying of the banks negotiating the South African rescheduling, toughened guidelines restricting new South African lending, and the establishment of a body to monitor a ban on medium and long-term lending.

A delegation appointed by the Commonwealth group will ask the banks to apply the highest possible interest rates to South African debt, to provide for substantial capital payments, and to reject the so-called "exit clause" under which short-term debt covered by the standstill can be converted into 10-year loans.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	24	75	Dubrovnik	F	22	72	Malta	S	27	81	Rhodes		–	–
Algiers	S	29	84	Edinburgh	C	12	54	Manchester	F	15	59	Rio de J'o		–	–
Amsterdam	F	15	59	Faro	F	28	82	Manila	F	33	91	Rome	F	23	73
Athens	S	28	82	Florence	F	23	73	Melbourne	F	13	55	Salzburg	R	11	52
Bahrain	S	35	95	Frankfurt	F	15	59	Mexico City	C	22	72	San Francisco	F	11	52
Bangkok	F	33	91	Funchal	F	22	72	Miami	F	26	79	Seoul	S	25	77
Barcelona	C	24	75	Geneva	C	17	63	Milan	F	20	68	Singapore	R	28	82
Beirut		–	–	Gibraltar	F	25	77	Montreal	S	11	52	Stockholm	F	18	64
Belfast	C	14	57	Glasgow	C	13	55	Moscow	F	20	68	Strasbourg	C	14	57
Belgrade	F	19	66	Guernsey	S	17	63	Munich	R	11	52	Sydney	F	17	63
Berlin	F	17	63	Helsinki	F	17	63	Nairobi	C	21	70	Taipei	C	27	81
Biarritz	S	20	68	H. Kong	F	31	88	Naples	S	26	79	Tangier	C	25	77
Bombay		–	–	Innsbruck	C	14	57	Nassau	F	33	91	Tel Aviv	S	30	86
Bordeaux	F	21	70	Inverness	C	13	55	New Delhi	C	27	81	Tenerife	C	25	77
Brussels	C	16	61	Islamabad	F	36	94	New York	S	18	64	Tokyo	C	28	82
Budapest	R	15	59	Istanbul	S	26	79	Nice	S	23	73	Toronto	S	11	52
B. Aires	F	17	62	Jakarta	C	32	90	Nicosia	S	28	82	Tunis	C	29	84
Cairo	S	33	91	Jersey	S	19	66	Oporto	S	26	79	Valencia	F	26	79
Cape Town	C	15	59	Jo'burg	S	23	73	Oslo	S	17	63	Venice	S	21	70
Caracas		–	–	Lima	C	18	64	Paris	F	18	64	Vienna	R	14	57
Casablanca	F	25	77	Lisbon	S	26	79	Peking		–	–	Warsaw	R	13	55
Chicago	S	12	54	London	C	16	61	Prague	R	12	54	Washington	S	19	66
Cologne	C	15	59	Los Angeles	Fg	14	57	Reykjavik	R	9	48	Zurich	R	13	55
Copenhagen	S	15	59	Luxembourg	F	14	57								
Corfu	S	24	75	Madrid	F	24	75								
Dallas		–	–	Majorca	C	26	79								
Dublin	C	16	61	Malaga	S	29	84								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

THE LEX COLUMN

A tricky take-off for BA and UAL

The ease with which even the world's biggest foreign airlines are now being sucked along by the collective airline takeover mania which has gripped Wall Street is worrying. It is one thing for wealthy financiers like Messrs Icahn and Davis to gamble their personal fortunes, but when relatively conservative European airlines like KLM, British Airways and now Lufthansa enter the casino with plenty of money it raises the stakes enormously.

They are well regarded managers and should know the real value of airline businesses. But there is more than a suspicion that Wall Street's clever financiers, who can make equity look like debt and promise huge financial returns for seemingly minor risk, are exploiting the obvious ambitions of European airlines to become global mega-carriers. As the US is far and away the world's biggest airline market, non-US airlines are being persuaded that unless they move quickly they may be disadvantaged by the corporate moves now under way.

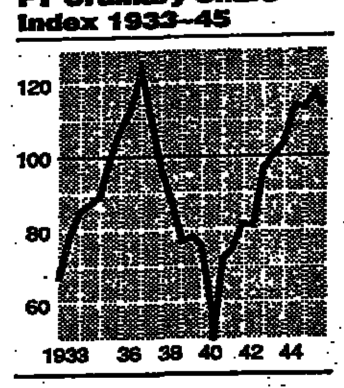
Texas Air, NWA and Delta have already tied their knot with smaller European carriers. But that still leaves American and UAL, the two US airline giants, and BA, Lufthansa and Air France, the biggest players on the other side of the Atlantic. One can understand BA, the world's biggest international airline, feeling threatened by Lufthansa's linking with AMR, or Air France's joining a rival bidder for UAL. They could syphon business away from BA's most profitable routes.

This helps explain why less than a year ago UAL shares were trading at under $90, yet BA has now joined forces with UAL's management and unions to offer $300 a share. Although a prospective exit multiple of 15 times UAL's earnings is almost double BA's rating, it values UAL at 5.4 times its $1.3bn of earnings before depreciation, interest and tax, whereas NWA was taken out at 6.5 times.

BA's interest in UAL is not purely defensive. It is putting up the bulk of the equity, but only around 10 per cent of the cash, and gets a 15 per cent equity stake in the second biggest US airline. The promised 11 per cent yield on an admittedly highly leveraged investment should counter the City's immediate fears about massive earnings dilution; and even though BA's gearing could rise by 50 per cent depending on how the deal is financed, it is gambling less than a year's cash flow on a rather bold move. The investment is designed to provide BA with a long-term average rate of return of over 20 per cent per annum, and this is before any potential operational benefits and advantages in terms of improved bargaining power vis à vis monopoly suppliers like Boeing are factored in.

It is not the sort of move which should unduly damage BA's own share price, unless the investment turns sour or BA is forced to pay a lot more. Admittedly, both are substantial risks. The financing charges of the new UAL, which will have nearly seven times more debt than equity, will be less than twice covered initially. In addition, it will still have to find over $2bn a year for the new aircraft it needs to reverse its steady loss of market share to AMR. More important, the success of the deal hangs on the hope that there has been a fundamental improvement in US airline profitability, which will not evaporate in the next recession. This may be as dangerous an assumption as the belief that BA will not pay a lot more to gain a foothold in the US. The only consolation for BA shareholders is that if BA were ever to be valued like UAL, its shares would be well over £4, rather than a shade over £2. Step forward, Lord Hanson.

FT Ordinary Share Index 1933–45



War memories

On Wall Street, the market was shut for Labor Day. In London, Monday September 4 1939 found members of the London Stock Exchange at home by their wireless sets. The Exchange had closed the previous week, to keep its brokers, jobbers and clerks out of the way of evacuees filling the railway trains. On the Berlin bourse, Hitler's invasion of Poland had been greeted cheerfully, with shares in Siemens and Mannesmann showing gains. In Amsterdam, Fokker and Philips were rising on hopes of war profits.

Judging from the market indices, Britain's equity investors had been reckoning on war since 1936 or so. Practitioners of the then-popular Dow Theory of technical analysis were saying that the market was poised for a rally, after the FT Industrial Index's August nadir of 91.2. The manner in which war came – via the Nazi-Soviet pact of August 23 – was astonishing nonetheless. That week the index fell another 5 per cent, as ICI lost 9d to 32s 6d. The real low, though, was still to come: during the Fall of France in 1940, and equities were to remain shaky until a bull market took off in mid-1942.

Some punters saw buying opportunities. As Ribbentrop and Molotov were signing their pact insurance shares were a centre of attention in London. Investors liked the assets insurance companies kept safely across the Atlantic. Royal Insurance had $105m on Wall Street: by August 23 its shares and Commercial Union's were a screaming buy, said the FT. On September 4 the newspaper puffed the shares of the bandage-and-sticking plaster manufacturer, Smith and Nephew. Dealers were bullish on Ever Ready: when the Exchange re-opened on September 7, its shares rose 1s 6d, on hopes of extra sales of electric torches. The same day P&O climbed 2s 6d, as older hands recalled the sparkling record of shipping shares after 1914.

Railway companies, like the Great Western, were the dullest performers. Shares in the so-called Home Rails languished first under the threat of a train strike, called off only when war was a few days away. There were fears, too, about how strictly the Government would run Britain's railway network for the duration.

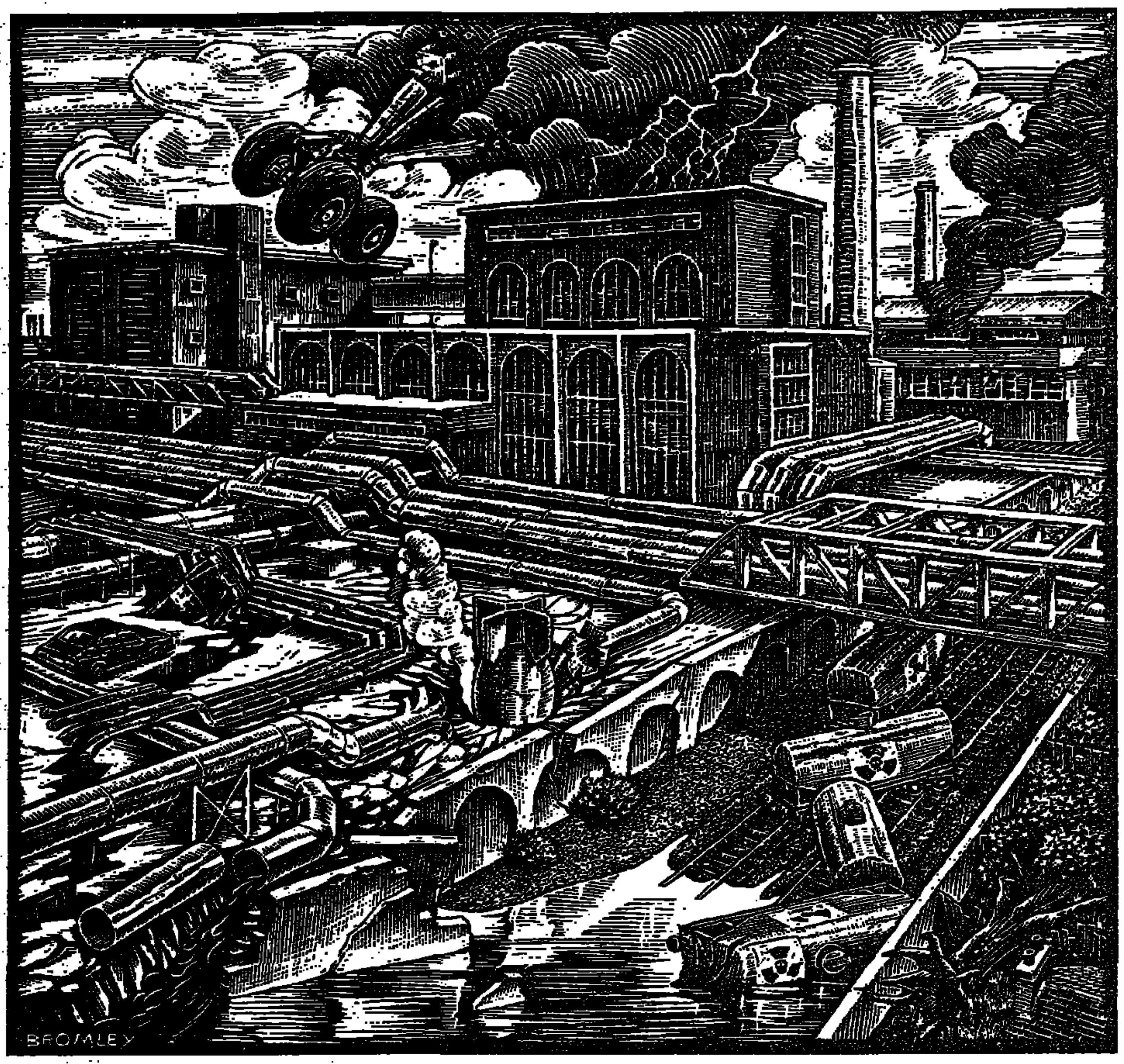
Yet equities ranked well below bonds in pre-war investors' eyes. Their prices too had been discounting the approach of war. After falling gently in 1937 and 1938, as fears grew of higher interest rates and wartime inflation, gilts plunged in August 1939. War Loan hit a new low of £86 the day the Nazi-Soviet pact was announced. The crunch came on August 24, when the Stock Exchange fixed minimum prices for gilts, as it had done in 1914. The same morning, the Bank of England astonished the FT, if not perhaps the rest of the City, by doubling Bank Rate to 4 per cent, from the 2 per cent where it had been since 1932. On August 27 the Treasury prohibited UK investors from selling foreign securities, and wartime financial controls were falling into place.

SECTION III

FINANCIAL TIMES SURVEY

Although the industry is in better financial health, its structure is changing. As direct insurers grow larger, they cede less business to reinsurers. In Europe, the 1990s are likely to produce consolidation, writes Patrick Cockburn, with less reliance on reinsurance.

A shifting perspective



REINSURANCE

CONTENTS

Editorial production: Martin Davies

WHEN LEADERS of the world's reinsurance industry gathered in Monte Carlo last autumn for their informal annual rendezvous, two topics dominated their agenda.

These were the cyclical downswing in reinsurance prices, which started in most world markets in 1987; and the financial implications of the $1.4bn loss of the Piper Alpha oil rig in 1988.

This year there is likely to be less talk about Piper Alpha, interest being greater among the British, who have born the brunt of the loss, than other West Europeans or Americans. The very size of the loss, far and away the largest in the oil and gas insurance market since it took its present shape more than 20 years ago, makes it important but its overall impact on reinsurance pricing has been confined to excess of loss cover in the offshore sector.

The lack of impact of Piper Alpha and of the storm in south-east England of October 1987 – known on the London market by its Lloyd's catastrophe number 87J – is indicative of the state of the market in general.

Despite underwriting losses, prices are soft, and it is difficult to see why, in the immediate future, this should change.

"The speed with which the 1985-86 upturn softened shows the fundamental oversupply of capital," says one analyst. "We've had some huge losses, but without effect on prices. There is nothing on the horizon likely to boost rates by up to 40-50 per cent. For this, you need some companies to go under or a persistent sub-standard return on capital reducing overall capacity."

This is not a very optimistic outlook for an industry which, since the 1960s, has usually accounted for a seventh of the world's total non-life insurance revenues totalling over $400bn. By taking a share in the insurance business written by primary property/casualty insurers, the overall risk is spread further.

Financially, the industry is now much healthier than in the mid-1980s. The capital base of the US reinsurance industry has almost doubled, to $117bn from $64bn in 1984. But, for all this, the structure of the insurance industry as a whole is changing, and not necessarily to the advantage of the reinsurers.

As direct insurers become larger in size, through their own growth or acquisition, their solvency margins improve and they cede less of their business to reinsurers. This may be exacerbated by the present differential between direct and reinsurance prices. Furthermore, the business being retained by insurers is likely to be what in the past had been the reinsurers' bread and butter business.

Too much can be made of this. The impact of 1992 on the European insurance industry is still very unclear. It might precipitate a wave of mergers or acquisitions, but this is by no means certain. In general terms, however, the 1990s do look likely to produce a consolidation in the European insurance industry, and with it less reliance on reinsurance.

Nor are these changes necessarily confined to the insurance industry. Larger companies in Europe also means more sophisticated treasury departments and risk assessment, with more business retained in-house or, at least, not being ceded to the reinsurance industry.

How will the reinsurance industry respond to these long-term changes? The two largest European reinsurance companies – Swiss Re and Munich Re – which together have an annual premium of $9.1bn have somewhat different approaches. Swiss Re has tended to shift into in direct life and non-life insurance, while Munich Re has taken stakes directly or through affiliates in major direct insurers. The most important of these is Munich Re's 25 per cent reciprocal stake in Allianz.

Lloyd's has already suffered from these changes in the structure of the insurance industry. It was, for instance, responsible for only some 40 per cent of the primary insurance of Piper Alpha, but, through reinsurance, some 80 per cent of the risk was ultimately centred in London.

This concentration of foreign reinsurance, as opposed to primary reinsurance, has its disadvantages for Lloyd's, all the more so since the size of catastrophe and disaster claims has been going up. Speaking of 87J, the October storm which cost some £2bn in the UK, France and Norway, one insurance broker said it was "inconceivable that it would have generated the same level of loss 10 years ago." Even Piper Alpha was worth only 45 per cent of the top value rig in the North Sea.

Yet, despite the size of these losses, the most significant outcome of these disasters has been the lack of impact on the prices, underlining present over-capacity. The one exception to this is long tail property-casualty business in the US, where there are fears of further heavy losses from asbestosis, the demolition of buildings containing asbestos and environmental pollution.

Asbestos bodily injury has already produced settled or outstanding claims worth $5.2bn, and it may be that US trade unions are getting to the end of the list of workers most likely to have been affected when asbestos was in common use. But asbestos property damage, only gradually being revealed as buildings come up for renovation or demolition, could ultimately total 10 times as much, or around $54bn, over the next 30 years, according one estimate. There are some 3,500 school buildings containing asbestos, in addition to 733,000 public or commercial buildings.

On hazardous waste, two important court decisions – Rocky Mountain Arsenal and Diamond Shamrock – have recently gone in favour of the insurer. But there are still 27,000 identified dump sites in the US, some 10,000 of which need to be cleaned up. With the heavy publicity given to the fate of members of RHM Outhwaite syndicate 317 which, in effect, reinsured other syndicates against asbestos and environmental risk in 1982, the lack of enthusiasm for long-term US property-casualty risk in understandable.

In these circumstances, it is hardly surprising that the outlook for insurance brokers also looks pessimistic. Revenues at Sedgwick, Frank B.Hall and several big European brokers have gone down, in part because of the poor performance of their reinsurance subsidiaries. For the 20 top international brokers, 1988 was the worst year, with the exception of 1983, since the early 1970s. This makes the companies more selective in the type of business they handle, and keen to offer consultancy and specialist services. The disadvantage of offering extra services is that this obviously increases costs at the moment when brokers are trying to cut them.

How far does the present slump in interest rates resemble the rate cutting in 1978-84? The most obvious parallel between the two periods is high interest rates, when reinsurers were prepared to cut their prices in order to collect premiums in order to invest them whatever the underwriting loss.

The argument against this occurring again is that the tax incentives, certainly in Britain, are less than they were 10 years ago. East European and Latin American reinsurers who sharply cut rates 10 years ago have not returned to the market, and companies may also be more conscious that high interest rates mean that inflation will boost the cost of claims. As a result, notes on observer, "everybody says they are not involved in cash-flow *under-writing – but they* would, wouldn't they?"

More immediately, the most interesting development in world reinsurance is the degree to which the US reinsurance industry has managed not to get involved in the competitive rate-cutting of the primary insurance business. Although the overall volume of reinsurance may be down, this has led to heavy buying of General Re on Wall Street, the argument being that, as the primary insurers cut the premiums, they will ultimately have to turn to the reinsurers.

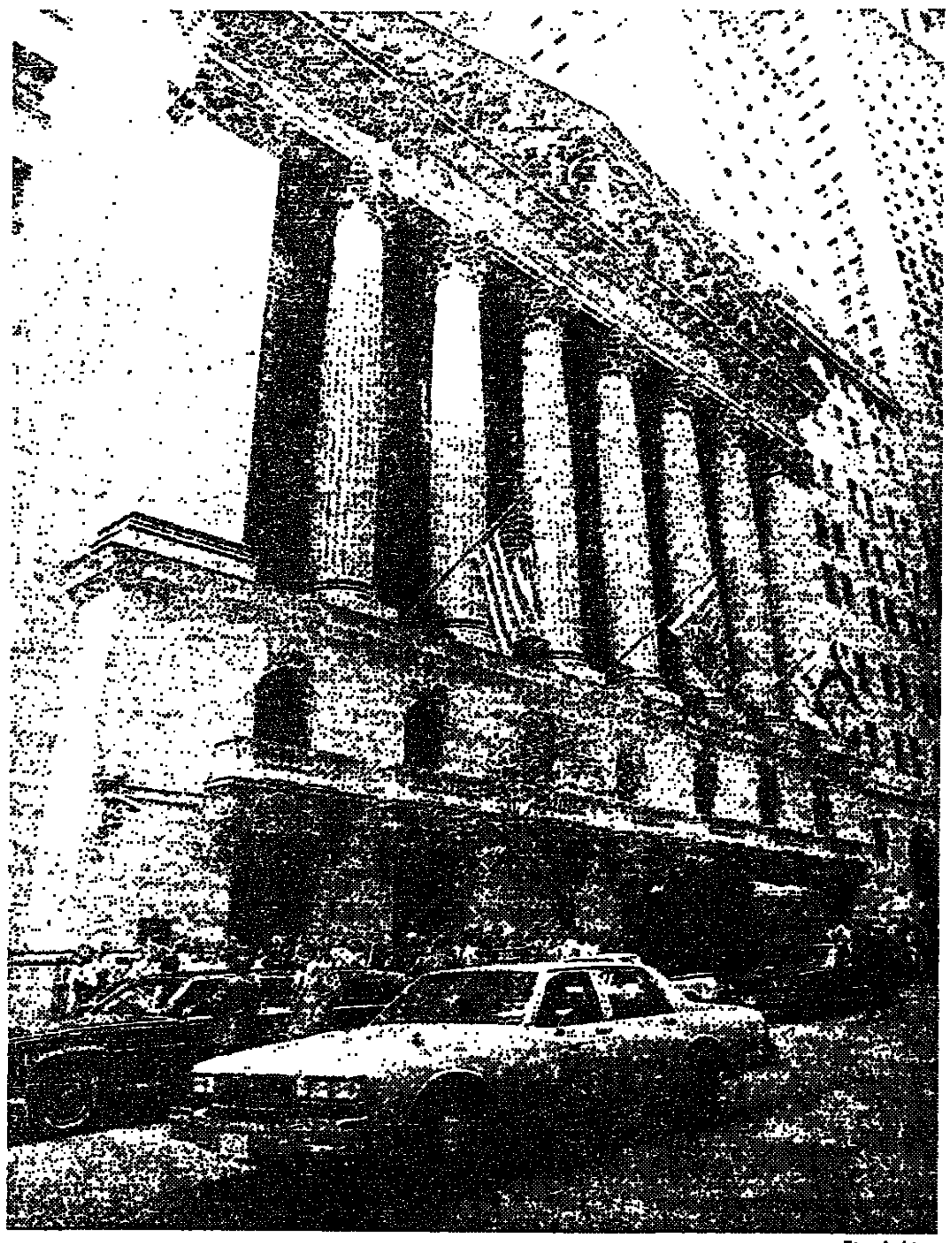
According to Mr Zerbarini, of Prescott Ball: "They will eventually have to seek reinsurance relief. And strong companies, like General Re, will be able to cherry-pick their business at the price they dictate and the terms they dictate."

Nevertheless, in both the US and Europe, structural changes in insurance are putting pressure on the reinsurance business as a whole, with little sign of growth in the volume of business in the next few years.

REINSURANCE 2

THE US: two big questions are looming, says **James Buchan**; meanwhile . . .

Profitability holds up in the face of idle capacity and high overheads



Tony Andrews

Wall Street believes the reinsurance industry will escape the shake-out in the primary market

SO FAR, so good. The US reinsurance industry has just about kept its neutrality in the price war now raging in the primary insurance market. Prices are softening and terms are getting tougher for the reinsurers. But the companies are making money.

This has not been easy in a market that is shrinking markedly. The industry, which was writing $11bn in business in 1986, had premiums of under $10bn last year, according to the Reinsurance Association of America. General Re, the largest US company, has seen its quarterly premium fall from $721m in early 1987 to $440m in the quarter just ended.

Executives say the temptation to scramble for business is excruciating. With so much capacity idle, the companies are carrying excess overheads, and the pressure on expense ratios is severe. But by midsummer, at least, profitability was holding up. General Re was writing business in the second quarter at a combined ratio of losses and expenses to premium of 99.1 – that is, it made 90 cents in profit on every $100 of insurance it took on even before it invested the premium. The industry as a whole is probably unprofitable before investment income, but not by much.

But the reinsurance industry and the Lloyd's syndicates in the US market go into the second half facing two big questions. How long can the reinsurance market withstand the pressure on prices coming down from the primary market? And can the industry ever recapture the business it has lost?

In the primary market, the crisis of the mid-1980s, when competitive rate-cutting plunged the property/casualty industry deep into loss, is but a distant memory. Two years of record profits, static loss reserves and booming stock and bond markets have swelled the industry's capital base to $117bn, against an exiguous $63bn in the terrible year of 1984, according to A.M.Best, the insurance analysis firm.

This increased capital will naturally support a much higher level of business. "Euphoria is still rampant on the upper floors of home offices," says Mr Donald Zerbarini, an insurance specialist at Prescott Ball & Turben. But the new business is simply not coming in. Many traditional insurance clients, ranging from municipalities to corporations, have abandoned conventional cover, and instead set up captives or insured themselves. They remain embittered by the high rates and threadbare cover that the industry offered as it scrambled back from the crisis.

One result is cut-throat competition for whatever business there is. The other is that the property/casualty companies, burdened with capital, can now afford to hold on to business they would normally have laid off in the reinsurance market. Some companies are holding on to as much as 75 per cent of their premiums for their own account. "There is a good deal of extra surplus at hand, so they don't need to cede," says Mr Andre Maisonpierre, president of the Reinsurance Association.

Reinsurers say that primary insurers are also being tough on terms. Risks that would

In the primary market, after two years' record profits, the crisis of the mid-1980s is but a distant memory

normally be laid off separately, in what is known as the facultative market, are now routinely included in the treaty market, where reinsurers simply shoulder a portion of the insurers' business. Facultative premiums, which were 24 per cent of the reinsurance market in the good year of 1986, were down to 20 per cent in 1988, according to the Reinsurance Association.

By all accounts, the reinsurers ought to be scrabbling for this reduced business, cutting rates and accepting much riskier business, just like the primary insurers. But executives say that renewals on property and casualty reinsurance are running at rates perhaps 10 per cent lower than last year.

One reason for the relative price discipline is that reinsurance industry was almost bankrupted in the mid-1980s, and has not forgotten. Several reinsurance companies failed, and the average combined ratio for the industry was a horrible 128.2 in 1984.

"The crisis was a lot more scary for reinsurance than insurance," said Mr Maisonpierre. In addition, the reinsurers were confronted in the early 1980s with a class of long-lived, or so-called "long-tail" risks, where huge claims have to be met years after the risk was insured.

The reinsurance industry is haunted by the prospect of big claims for environmental liability. Millions of dollars have already been awarded by the courts to clean up toxic waste sites. But these costs are dwarfed by estimates that it could take up to $100bn to clean up the hazardous waste sites identified under the Superfund laws.

Even if just one quarter of that cost were passed on to the insurance industry, it would be quite enough to bankrupt the reinsurers. It is no great surprise that the Lloyd's syndicates, for example, are so chary of US casualty business. After all, what looks like profit now may well turn out to be inadequate loss reserves years from now.

On Wall Street, there is a growing belief that the reinsurance industry is going to escape the shake-out in the primary market, and indeed will profit from it. The argument, which is put eloquently by Mr Zerbarini of Prescott Ball, holds that rates and profits are going to deteriorate further in the primary market, till balance sheets will no longer support the current level of retention.

"They will eventually have to seek reinsurance relief," he says. "And strong companies like General Re will be able to cherry-pick their business, at the the price they dictate and the terms they dictate."

It is this kind of thinking that is behind the extraordinary buying interest in General Re. Clearly, if the company is solidly profitable at its current low of level of business, additional premium should end up at the bottom line. The company's stock, which ended last year at $56, was trading in the high $70s in August, making it one of the year's best performers in the stock market.

Scor Re has also been strongly in demand. Among the property/casualty insurers, only specialised companies such as American International and Hartford Steam Boiler have generated such a following this year.

But it is very doubtful whether the reinsurance industry will ever regain its former size. Even as rates are cut in the primary market, there is no great sign that business lost to captive insurers or self-insurance is being recovered. In fact, premium growth for the property casualty companies is lagging the overall growth of the US economy.

"This business is lost for the time being and maybe for ever," says Mr Maisonpierre. "I think there are important structural changes taking place."

Even as rates are cut in the primary market, there is no great sign that lost business is being recovered

Top U S reinsurance companies 1988 results ($000's)

Company	Policyholder's Surplus	Net Premiums Written	Net Premiums Earned	Losses & Loss Adj. Expenses	Loss Ratio %	Underwriting Expenses	Expense Ratio %	Combined Rates %
General Re Group	2,319,177	1,780,247	1,921,097	1,344,332	70.0	517,766	29.1	99.1
Employers Reinsurance	1,045,269	1,312,390	1,332,098	996,478	74.8	341,493	26.0	100.8
North American/Swiss Re	623,401	623,611	679,178	464,370	68.4	213,277	34.2	102.6
American Re-insurance Co	553,256	937,336	951,463	711,201	74.7	250,690	26.7	101.5
Munich Re Group	505,604	625,151	645,715	449,091	69.5	203,346	32.5	102.1
Prudential Reinsurance Co	416,912	560,529	585,575	426,903	72.9	207,593	37.0	109.9
Kemper Reinsurance Group	364,792	308,883	320,926	262,302	81.7	66,678	21.6	103.3
Skandia America Group	309,934	234,306	252,134	175,358	69.5	81,872	34.9	104.5
National Reinsurance Corp	199,891	281,087	278,932	228,827	82.0	56,010	19.9	102.0
Cigna Reinsurance Co	187,927	282,498	294,052	207,314	70.5	83,910	29.7	100.2
Nac Reinsurance Corp	174,217	171,430	161,978	124,690	77.0	51,142	29.8	106.8
Transatlantic Reinsurance Co	174,341	311,139	298,656	243,571	81.6	73,350	23.6	105.1
Constitution Reinsurance Corp	164,790	258,193	263,905	192,427	72.9	74,182	28.7	101.6
Transamerica Reinsurance Co	149,046	257,402	209,186	151,340	72.3	71,915	27.9	100.3
Underwriters Reinsurance Co	147,916	150,591	149,258	110,003	73.7	38,250	25.4	99.1
"Winterthur" Swiss Insurance Co	142,468	74,025	78,036	55,151	70.7	26,585	35.9	106.6
Dorinco Reinsurance Co	117,620	51,805	49,056	41,304	84.2	6,461	12.5	96.7
American Agr. Ins. Co	113,355	106,060	121,617	105,518	86.8	17,555	16.6	103.3
US International Reins. Co	113,407	201,344	188,792	136,487	72.3	63,716	31.6	103.9
Scor Reinsurance Co	108,539	110,649	112,063	73,718	65.8	32,600	29.5	95.2
Executive Re (ERIC)	107,162	51,731	46,817	31,836	68.0	16,573	32.0	100.0
Trenwick America Reins. Corp.	107,640	103,871	96,275	69,714	70.9	31,889	30.7	101.6
Continental Reinsurance Corp	103,806	248,040	240,508	193,846	80.6	89,363	36.0	116.6
Putnam Reinsurance Co	103,824	138,792	127,588	99,997	78.4	34,292	24.7	103.1
Metropolitan Reinsurance Co	100,586	117,848	117,344	102,622	87.5	33,486	28.4	115.9
Total Reinsurance Companies	10,391,443	10,822,523	11,087,763	8,160,168	73.6	3,172,696	29.3	102.9

RESEARCH: RIVKA NACHOMA

Hanover Re/Eisen und Stahl premium income: end-1988

	Total premiums DMbn	Foreign DMm	Of which US DMm	Domestic DMm
Hanover Re	1.56	956	413	600
Eisen und Stahl	0.83	191	82	638
Total	2.39	1,147	495	1,238

PROFILE

Mutual sisters look like twins

LAST MONTH'S news that Deutsche Bank, West Germany's biggest financial institution, had chosen Hannoversische Rückversicherung (Hanover Re) as one of the four companies to re-insure its new life insurance unit threw an unexpected spotlight on the one of the country's largest, but least known, re-insurers.

For Hannover Re and its sister company Eisen und Stahl Rückversicherung have until recently hidden their light under a bushel. As mutually-owned organisations, their shares are not quoted on the bourse, like Munich Re, the leading German re-insurer.

Nor, like Cologne Re, can they claim to be the oldest in the field. As its name implies, Eisen und Stahl was founded by representatives of German heavy industry in 1923, while Hanover Re is a much more recent creation dating from 1966.

But, while neither company individually gets beyond around seventh place in the league table of German insurers in terms of premium income, together they rank second according to their own estimates, with combined premium income of DM2.39bn.

Yet who they are remains something of a mystery – something Mr Claus Bingemer, the long-serving chairman of their combined executive board, would now like to change.

While Eisen und Stahl had built up a solid but overwhelmingly domestic business, the much younger Hanover Re had been forced to look for much of its business abroad

Part of the problem lies in the fact that, although closely linked, it is only since January 1988 that the bond between the two groups, which share the same modern red-brick home just outside Hanover, has been most strongly forged, effectively giving them one top management and board.

The reasons behind the lag in cementing the link are complex. Hanover Re and Eisen und Stahl first drew closer in 1970, when the Haftpflichtverband der Deutsche Industrie (HDI), a mutually-owned insurer, joined forces with the Feuerschadenverband, another mutual, which was particularly active in fire risks.

With a 51 per cent stake, the HDI was the majority shareholder in Eisen und Stahl, with the remaining shares being held by a number of big German mutual insurers, including HUK-Coburg, one of Germany's main motor insurers. Meanwhile, the Feuerschadenverband owned Hanover Re, which it had set up four years earlier.

Each group had thought alike in establishing its own re-insurance operation, in order to guarantee its re-insurance needs, and, to a lesser extent, look for outside business.

But, rather than take the obvious step of merging their re-insurance activities after 1970, the parent companies decided just to run them side by side.

The reasons lay largely in the sharply differing characters of the two operations. For while Eisen und Stahl had built up a solid but overwhelmingly domestic business, the much younger Hanover Re had been forced to look for much of its business abroad. For some of Eisen und Stahl's conservative cedents, merging the established and well-run group with its "riskier" young counterpart was felt to be unwise, prompting the decision to keep them apart.

In January last year, that finally changed with the decision to intensify their co-operation, which now makes the two companies all but indistinguishable. For the upshot of the "Zeichnungsgemeinschaft" between them means that all senior officers will now be able to represent and act on behalf of both companies.

The fit between Eisen und Stahl and Hanover Re could hardly be better. While Hanover Re derived DM956m (some 61 per cent) of its DM1.56bn premium income in 1988 from abroad, Eisen und Stahl took in a mere DM191m from foreign activities – representing just 23 per cent of its total premiums. Indeed, no other German re-insurer derives such a high proportion of its business from abroad, according to Mr Bingemer. By contrast, domestic premiums amounted to DM600m at Hanover Re and DM638m at the appreciably smaller Eisen und Stahl.

Given the present friendly solution, Mr Bingemer is unsure whether the two companies will ever need to mount a full merger. "Things function so well, it's not really necessary," he says. However, having finally brought the two companies together, he feels the time has come "for us to stop hiding our bloom".

International competition has also played a part in the decision to adopt a higher profile. Hanover Re is particularly active in the US, its biggest single foreign market, where the need for a company to advertise and present itself is particularly acute.

However, US re-insurance has proved extremely fickle for some of the companies which flooded into the market, only to pull back with burnt fingers soon afterwards.

While Hanover Re certainly does not put itself in that category, Mr Theodor Dielmann, the executive vice president who looks after its US activities, admits that its sharp expansion in the US after 1984 caused some concern. In three years, the group increased the size of its portfolio some five times over.

"We were not so much cleverer than the market," he says, implying that Hanover Re also went into the red. However, Mr Dielmann, who has been with the group since it had just 24 employees back in 1972, still maintains the US business has been profitable over the long term.

Nevertheless, greater caution in the US is the watchword now, with a reduction in its exposure. "Now is not the best time to be expanding," says Mr Bingemer. Double-digit growth in the US is now only being done by companies at the expense of profitability, adds Mr Dielmann.

But despite the recent decision to slow down Hanover Re's formerly breakneck growth, its achievements to date should not be underplayed. Seldom has a newcomer managed to break into the German re-insurance business from scratch, even with the help of a powerful parent like the HDI.

The share of premium income attributable to its parent has steadily declined over the years, to stand at just 30 per cent. That in itself is no mean feat in Germany, where the domestic re-insurance business is largely in firm hands.

Haig Simonian

EUROPE: **Jeffrey Brown** weighs the implications of new directives from Brussels

Big players will not be unscathed

LIFE IS getting tougher for Europe's underwriters. The underwriting cycle is turning down, with returns under pressure in a number of individual economies as well as in the broader, freer-running international insurance market. And, as if that were not trouble enough, the rules of the game are changing fast.

By the middle of next year, the first of the Brussels directives on insurance deregulation within the European Community takes effect. From then on – in the run up to 1992 – the trade barriers which have long protected some national insurance markets will start to tumble rapidly.

To a large extent, Europe's big reinsurance groups stand to one side of the direct firing line. The sort of trade restrictions which exist in many primary insurance markets are not part of the reinsurance world. Here a comparatively free market has operated across most national boundaries for more than two decades.

The likes of Munich Reinsurance, Swiss Reinsurance and Sweden's Skandia International have little to fear from deregulation in a direct sense. But the reinsurance industry cannot hope to escape entirely unscathed as Europe's primary insurers scramble to complete a rash of takeovers and mergers ahead of 1992. In theory, the move to larger power blocs for primary insurance could lead to less demand for reinsurance.

As the primary insurance industry grows less fragmented, so its ability to spread a wider degree of risk across a greater solvency ratio should increase. The resultant prospect – a smaller slice of a possibly lower-quality cake – is not one that Europe's reinsurance industry views with equanimity.

The pattern of reinsurance flows in the US looks an ominous portent. It may have more to do with the downturn in the underwriting cycle than will real longer-term trends, but even so the slowdown in US business is disturbing. For 1986, US reinsurance premiums as a percentage of total commercial premiums stood at 12.8 per cent. Industry estimates for 1988 suggest that the ratio has narrowed to around 11.5 per cent.

Does the recent decision to merge by Scor and UAP Re, the two top French reinsurance groups, suggest that reinsurers are themselves starting to batten down the hatches for a period of stormier trading? The answer, probably, is a qualified yes.

They operate efficiently in a highly competitive working environment. Their business is tough to price and rate, and it demands a high degree cash-management patience, since there are often long tailbacks before settlement can be completed with primary insurers.

A number of the big reinsurers might have captive relationships with primary insurance companies – Munich Re, for example, has a 25 per cent cross-shareholding with Germany's (and Europe's) biggest insurance group, Allianz – but this does not necessarily imply that management in general is short-sighted.

Despite their image, Europe's powerful reinsurance groups are not just a collection of overgrown, self-feeding, industry-dominant power blocs

Munich Re might appear to be relying heavily on its links with Allianz to provide protection against a cooling business climate. But having since 1986 paid a total of Dm2.3bn for RAS of Italy and Cornhill of the UK, Allianz has probably built for itself the best and most widely spread sales network in Europe.

Munich Re also has sheer size on its side. With net premiums running at the equivalent of $6.5bn for 1987, the company is more than twice as big as its nearest rival, Swiss Re. This must provide it with a substantial room to manoeuvre, should the normal cut and thrust of day to day business ever develop into an outright rating war.

However, Munich Re does looks to have too great a concentration of business, at a time when profits are not getting any easier to make. Premiums fell slightly last year, partly as a result of adverse currency swings, and pre-tax profits were broadly unchanged.

Against this background, the purchase of New Re, a small Swiss reinsurer, 18 months ago begins to take on increasing significance.

Taken together, Munich Re and Swiss Re dominate the European reinsurance industry. Their combined net premiums total $9.1bn, slightly in excess of the combined premiums of the other eight companies in the top ten. But their management approaches could not be more disparate.

Munich Re remains a reinsurance purist. In contrast, Swiss Re has spent the past few years busily diversifying, pushing hard into primary insurance both on the life and non-life side. In 1984, reinsurance accounted for two-thirds of total gross premiums. By 1987, the ratio was down to 55 per cent following growth in non-life direct insurance premiums to nearly 40 per cent of the total.

The differences are equally marked in terms of management philosophy. Swiss Re operates through a decentralised structure of subsidiaries, opting for a looser chain of command than that at Munich Re which keeps a very tight centralised control over its underwriting.

The Swiss clearly believe in delegation, while the German approach tends to leave very little to chance. The freedom that Swiss Re allows its subsidiaries has occasionally backfired, notably in the US in recent years. Yet it remains convinced that delegated responsibility is the way to attract and retain strong local management.

The 1992 changes also threaten to usher in a new accounting era for the reinsurance industry. Companies that do not already do so will be obliged to produce consolidated accounts, and Brussels is also calling for greater realism in the valuation of investments.

Any new portfolio valuation directives would have a dramatic impact on company net asset values and – possibly – on the attractions of the industry to the stock market. For example, one analyst estimates that the real worth of Swiss Re's investment portfolio is around SFr4bn (£1.5bn). This is roughly double the current book value.

But the new directives could also have serious implications for the way some reinsurers view their balance of risk.

German companies are not alone in making a determined stand against the disclosure of hidden reserves. The German view is partly philosophical, partly practical. Insurance, says Munich Re, is a long-term business needful of the sort of cushioning that hidden reserves provide

The top 10 European reinsurers

Net premiums $bn	
Munich Re	6.54
Swiss Re	2.56
Skandia Intl.	1.29
Hannover Ruck	1.19
Scor/UAP Re	1.16
M & G Re	1.14
Generali	1.11
Cologne Re	1.07
Gerling Kozern	1.06
Frankona Ruck	0.81

THE LONDON MARKET: as direct insurers retain more risks, reinsurers see a reduction of business, writes **Eric Short**

Downturn prompts players to improve their efficiency

THE LONDON reinsurance market is now firmly into the next downswing of its business cycle. But underwriters are confident that it will not reach the depths seen in the dramatic downswing of the late 1970s and early 1980s.

The basic causes of this downturn are the familiar ones of over-capacity and a slowing down of business.

Rating has been firm in the direct insurance market for the past few years, particularly for personal line property and motor business; while, at the same time, investment rates have remained high. This has resulted in a strong cash-flow for the direct-writing insurers and high solvency margins.

So direct insurance companies have been retaining a larger share of the risks put before them. Reinsurers have seen a reduction in the amount of proportional treaty business.

In contrast, the direct insurance writers have been increasing the amount of catastrophe reinsurance cover on a non-proportional basis. The October 1987 hurricane showed the need for such cover. Until then, catastrophe reinsurance had been sought for the large corporate risks, rather than for their overall personal lines portfolios. Now these companies are seeking such catastophe cover, and are finding it mainly from the Lloyd's market.

Reinsurance accounts for most business placed at Lloyd's. This market has always been an attractive carrier of catastophe risks. With its worldwide book of business, Lloyd's has the experience of rating catastophe risks, such as hurricanes and floods, and the ability to handle claims quickly.

The question facing reinsurers is how long the downturn will last. The answer is not in their hands, but in those of the direct-insurance writers, particularly in the US, since reinsurance markets follow the direct markets. London is not alone in facing the downturn.

Over-capacity is a worldwide phenomenon and, as yet, there are no signs that London is losing its share of the world reinsurance market.

The indications from the US are that rates are not going to firm up again for at least another two or three years. But, on the other hand, reinsurers do not expect to see rates collapsing as they did in the late 1970s and early 1980s.

Much depends on whether reinsurance rates soften in line with direct insurance rates, so that it again becomes attractive for direct insurers to lower their retention limits and buy their cover in a soft retrocession market, expanding reinsurance business again, albeit at lower rates.

But reinsurers are expected to take a much tougher line this time against widespread rate-cutting. Although they also have strong solvency margins, they do not have the same benefit from high investment returns as the direct insurers. At present, some reinsurers are prepared to see their market share decline, rather than take on poor risks at unrealistically low premiums.

Nevertheless, the major reinsurance brokers are seeing large risks coming on to the market, where premiums are soft, cover is far wider than hitherto experienced, and policy conditions are generous.

Creation of a single European financial market in 1992 will not have a direct effect on London's reinsurance operations. Reinsurance is worldwide, with few if any national boundaries preventing the flow of business. Nevertheless, if a single financial market has in-depth effects on the direct insurance writers, then there will be a spin-off on the reinsurers.

The forthcoming downturn is giving impetus to steps being taken by reinsurers in the London market to improve their administration efficiency. It is recognised that the administration required an overhaul, making use of computers and technology. Attention is being given to networking, the processing of claims, and to planned market buildings.

Reinsurance brokers are also hit by the downturn. Lower rates and a drop in turnover means lower income, while expenses rise. However, reinsurance brokers are major international firms and the drop in margins has been offset by currency gains.

Lloyd's faces its own widespread problems in connection with its reinsurance business. It is still grappling with the asbestosis claims relating to cover effected many years ago – problems that have been widely publicised. Now a new threat has arisen, namely insurance claims on old business relating to pollution.

At present, this threat is dormant. Recent court judgments in the US, on whether insurers should carry the cleaning-up costs arising from pollution, have been in favour of the insurers.

Lloyd's heaved a sigh of relief over the Rocky Mountain Arsenal judgment. It faced having to meet a significant portion of the estimated $2bn-plus bill for cleaning up what has been described as "the most polluted spot on this planet".

The Council is currently grappling with the problem of a growing number of syndicates leaving their account-years open at the end of the normal three-year period.

One solution that is being mooted is the establishment by the Council of a reinsurance company that would offer reinsurance, at commercial rates, to syndicates to enable them to close their accounts.

The success of this proposal would, however, depend on the London reinsurance market's being willing to participate in providing at least some of this reinsurance cover – at present a problematical situation.

PERFORMANCE OF LLOYD'S MEMBERS AGENTS

The Neill Committee recommended that "The Council should take the necessary steps to facilitate the disclosure of members' agents' performance by reference to the results of the syndicates to which their Names have had access".

The Council of Lloyd's gave effect to that recommendation in Byelaw No 7 of 1988. This requires each Members' Agent to publish an annual Members' Agents Information Report (MAIR). The MAIR is to include a statement for each year of account of *each agency's average performance showing the sum of the aggregate results of its Names as a percentage of the Agency's total allocated capacity of its Names.*

The first of these performance reports, which Lloyd's published on July 3, in respect of the 1985 year of account. That year's results show members' profits or losses *after* Lloyd's and agents' charges and profit commission and *after* UK income tax at the rate of 29 per cent on investment income and CGT at 30 per cent on capital gains. The performance by each Members' Agent on the basis of these results is shown in the table below from the highest to the lowest percentage.

The number of Members' Agents has been reduced by mergers and takeovers from 234 in 1985 to the present figure of about 140. Those now reporting have done so mainly under their present names and are listed below accordingly.

Also shown in the following listing are:

- the number of members that each Agent reported as having in 1985;
- the number of syndicates to which those members were allocated;
- the 1985 allocated capacity of those syndicates; this figure excludes capacity that was acquired by agencies enlarged by merger or buy-out after 1985; where a figure is omitted, this is because reliable information could not be readily ascertained for the agency concerned.

Members' Agent	Performance Average %	Number of Names	Number of Syndicates	Syndication Capacity £m
Hardy	19.00	34	23	3.85
N T Evennett	17.04	111	18	9.92
Edwards & Payne	13.27	315	15	40.32
Gravett & Tilling	10.87	14	8	0.55
Mander, Thomas & Cooper	10.60	9	14	1.22
Holman Macleod	10.57	80	3	0.84
G P Eliot	10.44	61	29	5.02
R J Kiln	10.21	230	60	29.10
R H M Outhwaite	9.90	108	78	14.82
Roberts & Hiscox	9.67	219	45	42.08
Peter Pepper	9.55	28	18	2.76
Alexander Howden & Beck	9.52	540	126	89.07
Claremount	9.48	90	47	–
Morgan, Fentiman & Barber	8.98	124	49	13.72
Murray Lawrence	8.97	678	131	104.29
Wren	8.94	765	102	64.93
Henry G Nicholson	8.88	33	27	4.58
Bankside	8.85	555	–	98.42
Cox Tudsbery & Willis	8.83	109	71	26.77
I C Agnew	8.72	12	20	2.38
Pieri	8.68	55	48	7.81
Bennett Barnes	8.60	33	38	6.43
C W Roma	8.60	4	13	0.52
Gardner Mountain & Capel-Cure	8.39	322	49	44.56
Gresham	8.31	2	3	0.07
Cuthbert Heath	8.10	416	54	82 26
Lime Street	8.07	26	52	7.44
Willis Faber & Dumas	8.04	1,040	114	188.66
Thos R Miller & Son	8.00	127	71	25.49
Lloyd-Roberts & Gilkes	7.93	77	51	12.00
Adams Johnson Green	7.89	37	–	6.02
A P Leslie	7.73	105	62	21.13
P B Coffey	7.70	12	10	0.70
John Haynes & Co	7.70	182	105	45.94
R M Pateman	7.63	106	56	20.93
Wellington	7.61	68	58	15.45
John Haynes Uw	7.58	128	81	12.86
Kingsley	7.53	247	76	68.62
Patrick	7.51	4	16	0.52
Christopherson Heath	7.44	152	79	21.72
Chiltern	7.43	52	65	8.75
Higgins, Brasier	7.42	73	30	9.09
Scott	7.40	71	52	17.32
Dawes & Henderson	7.38	198	106	63.33
Gammell Kershaw	7.38	10	31	2.54
Donner	7.26	356	66	114.38
M H Cockell	7.14	18	20	1.54
H G Jago/Venton	7.14	22	33	3.94
Janson Green	7.10	390	20	71.30
C I de Rougemont	7.10	132	70	21.67
Sedgwick Lloyd's	7.06	1,580	159	277.57
R F Kershaw	7.00	352	98	70.20
Fenchurch	6.87	828	198	178.04
Sudbrook	6.74	74	68	15.73
Bradstock & Barker	6.73	131	12	22.85
G W Hutton	6.71	88	41	12.87
Harrison Brothers	6.63	62	49	18.54
Secretan	6.63	43	35	6.90
Holmes, Hayday	6.62	11	17	1.25
David Holman	6.61	137	87	28.25
Barder & Marsh	6.52	245	33	35.82
Lambert Brothers	6.50	250	74	29.30
F L P Secretan	6.43	210	45	26.85
Edward Williams Coutts	6.39	227	41	26.25
B F Caudle	6.30	46	28	5.45
M F K	6.17	50	43	6.24
Jardine	6.10	423	181	55.67
Anton	6.05	198	91	28.15
Ashley Palmer & Hatheway	6.00	9	9	0.75
Bain Clarkson	6.00	308	104	67.72
Cater Allen	5.93	109	56	24.45
S A Meacock	5.93	218	54	22.98
Goode	5.91	156	34	18.94
Stewart, Gray's Inn	5.84	511	132	96.25
Laurence Philipps	5.83	304	83	56.51
Birrell Smith	5.77	43	44	7.15
David Evers	5.76	157	132	38.20
London Wall	5.75	450	124	72.98
Hinton Hill	5.70	68	64	15.74
George Miller	5.48	36	22	4.74
Stancomb & Kenington	5.45	193	128	27.80
Fielding	5.42	73	74	14.02
Frizzell	5.42	200	43	33.52
R A F Macmillan	5.42	55	51	6.67
L Hammond	5.41	88	17	10.98
R K Harrison	5.37	330	121	81.64
Taylor Clayton	5.36	31	38	3.46
Richards Longstaff	5.34	38	53	6.50
Mocatta Dashwood	5.28	443	185	91.71
R W Sturge	5.28	1,227	84	281.70
Crowe	5.22	45	18	12.17
A R Mountain & Son	5.19	70	36	10.80
Wendover	5.04	138	72	24.38
Crockford Devitt	4.97	153	116	28.78
Nelson Hurst & Marsh	4.90	562	226	128.89
Osborne Bell	4.83	162	125	52.92
J H Davies	4.80	32	42	5.44
Cassidy Davis	4.78	94	48	15.99
J K Shipton	4.76	209	74	39.78
Cotesworth	4.70	79	68	18.18
Kellett	4.67	148	75	22.91
Hayter Brockbank	4.54	259	92	86.18
Bolton, Ingham	4.30	243	56	35.84
Rose, Thomson, Young	4.25	204	80	34.84
R J Bromley	4.21	16	15	1.88
Ellinger Heath Western	4.20	50	32	7.60
R P Milligan	4.20	35	31	2.10
Moss, Mills	4.18	49	41	10.43
Oxford	4.15	767	–	142.50
Guest Barnes	4.14	4	7	0.37
BPC	4.06	421	59	65.99
D M Green	4.00	189	49	30.06
P W Kininmonth	3.96	91	55	16.44
Stewart Wrightson	3.85	892	119	95 20
Harris & Dixon	3.82	176	88	29.99
Newgreen	3.76	248	–	7.85
Greig Fester	3.73	187	145	51.42
R D Robertson	3.62	54	29	9.70
Merrett	3.41	847	89	124.89
Michael Payne	3.30	55	34	10.90
Towry Law	3.21	205	59	39.99
Spratt & White	3.10	55	29	8.38
Langton	2.80	300	18	54.81
Eversure	2.62	7	26	1.06
Chandler Graham	2.29	240	64	28.62
Caudle Hilsum	2.27	107	36	14.65
Foden-Pattinson	2.14	45	17	9.28
Edward Lumley & Sons	1.94	48	12	5.69
Roberts, Bird	1.74	81	66	21.94
Goode Walker	1.68	195	27	13.10
Octavian	1.64	223	38	50.88
Miles Smith	1.20	22	30	2.90
Philip N Christie	1.04	180	44	14.02
Hall Harford Jeffreys Langdale	0.59	109	76	22.00
M J Tullberg	0.29	36	12	3.04
Tyer	(0.86)	20	36	3.54
K C Webb	(3.87)	9	12	0.92
Golding, Drury	(5.70)	58	20	8.33
H G Poland	(8.30)	497	92	62.33
Anthony Coster	(18.02)	39	7	2.37

The planned London bourse will shortly have a home, as . . .

The founders' group grows

THE RECENT decision by the UK companies to throw their weight behind plans to form a reinsurance bourse in London has given fresh impetus to the enterprise, and has provided, in the words of one enthusiast, "irresistible momentum".

Supporters of the new market-place believe it can rival Lloyd's in size and sophistication, and help London sustain its dominance at the centre of the international insurance industry.

Market Building Ltd (MBL), the company formed to develop the bourse, is now backed by 14 London market companies and a number of leading foreign reinsurers, including the London subsidiary of Swiss Re.

Three other British composite companies – Sun Alliance, Guardian Royal Exchange and General Accident – are about to join the founders' group, which is expected to sign a 25-year lease on a building to be used for the bourse at 3 Minster Court, in November.

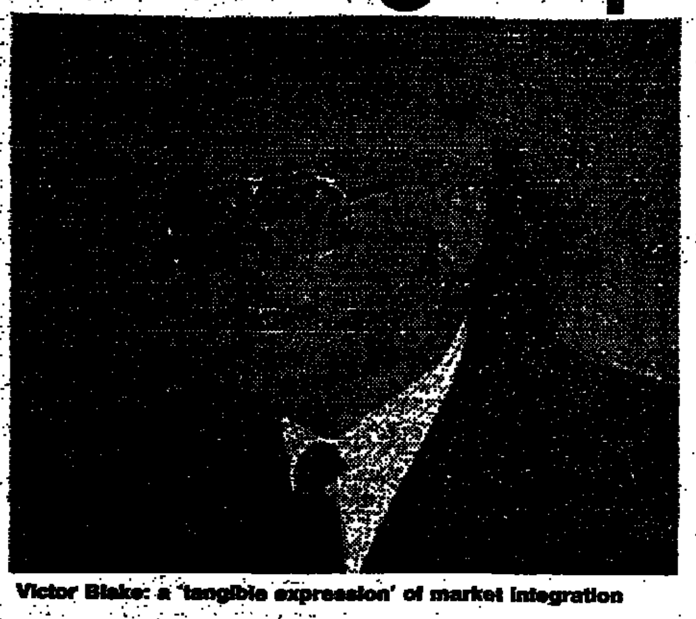
Plans to develop the building, on a customised basis, into a reinsurance exchange housing over 80 domestic and foreign reinsurers, who have already expressed interest in the project, will then be implemented, with a view to opening it for business in mid-1991.

Competition between the UK companies and Lloyd's market could intensify, but backers believe the new bourse is likely to strengthen the London market as a whole against the challenge presented by European and US reinsurers.

"The bourse will help us to overcome the threat of complacency, assuming that the business will flow to London no matter what," says Victor Blake, of CNA Reinsurance, chairman of Market Building Ltd.

Sceptics argue that the drift towards screen trading, in which brokers will offer risks to underwriters electronically, will undermine the importance of physical location in the insurance industry as a whole. They also say that the decision to date by some major players – including the Munich Re and Assicurazioni Generali – not to join will weaken it further.

Mr Blake is undeterred by such considerations. He says face-to-face negotiations between underwriters and brokers will remain a central feature of trading on the London market for some time to come, and that the physical integration of the market will reinforce moves towards integration being achieved through the electronic loss advice and settlement system operated by the Policy Signing and Accounting Centre (PSAC) and other developments.



Victor Blake: a 'tangible expression' of market integration

Although rents are expected to be similar to other central London locations, companies will reduce costs by basing only underwriting and claims facilities in the bourse building, with back-up services – possibly located outside the London area – linked by computer. The building, says Mr Blake, will be a "tangible expression" of the market's integration.

Indeed, the extent to which the bourse's infrastructure is already in place is one of the main reasons for confidence, says Mr Blake, who identifies the inadequacy of back-up as one of the main reasons for the failure of the New York Insurance Exchange, one of a number of recent efforts to develop an international exchange to rival Lloyd's.

"The benefits may not be there from day one, but over time there is no question that the development will give great economies of scale," Mr Blake suggests.

The successful experience of the Institute of London Underwriters (ILU), the London market companies specialising in marine insurance who opened a building at Leadenhall St in 1986, was one of the factors that led him to bring 10 of London's specialised reinsurers, or "line slip" companies together in 1988.

Although the reinsurance subsidiaries of the composites, including Mercantile and General Re (a subsidiary of the Prudential), Victory (of Legal and General) and Royal Re (of Royal Insurance), have been part of the founder group from the beginning, the initiative at first was, in the words of one close observer, "developed outside the hallowed portals of the big boys".

It was only this summer that three of the biggest composites, Commercial Union, Guardian Royal Exchange and General Accident, applied to become member/shareholders of the Market Building Ltd. Indeed, a steering committee, formed by representatives from the composites, had earlier considered – and dismissed – the idea of setting up a separate bourse.

The imminent deregulation of European insurance markets and the gradual realisation among British insurers of the need to gear for the competitive challenges of the 1990s, was one of the reasons behind their move. Traditionally weak in Europe, the composites have opted to compete for a share of the international business that is already arriving in London. According to Mr Blake: "People needed to position themselves for 1992."

For the Lloyd's market, the prospect of the new bourse is an ambivalent one. Over the past 10 years, Lloyd's has seen US and European reinsurers gradually eat into its market share of international reinsurance business; and, even without the bourse, Lloyd's could expect to face tougher competition for two reasons.

First, insurance industry analysts expect a number of mergers among European insurance companies to take place in the 1990s; and the new larger companies are expected to retain more insurance business for their own account, leading to a contraction of the volume of reinsurance business.

Second, the deployment of new technologies by many of the composites has allowed some companies to reduce their costs, and has correspondingly reduced the advantage of traditionally low operating costs enjoyed by Lloyd's syndicates. The companies have also become more innovative in the range of products they sell, again undermining a commercial advantage enjoyed by Lloyd's.

Nevertheless, the bourse could help Lloyd's in its fight against continental and US reinsurers. "It forces Lloyd's to recognise that it has competition in its own backyard, and will act as a spur, helping Lloyd's to come to terms with the new realities and introduce reforms and changes in practice that are needed in any case," says Mr Blake.

Moreover, the bourse is unlikely to change the way reinsurance business is conducted, with a number of underwriters participating in the reinsurance of particular pieces of business on a "subscription" basis. The present practice, where, say, 20 companies and Lloyd's syndicates combine to write 5 per cent of a slip, can be expected to continue, especially as services in other areas, such as claims, are becoming more integrated.

The bourse could reinforce collaboration between the two sides of the market, especially for high-value catastrophe risks, where large amounts of capacity are needed.

Richard Lapper

Hady Wakefield: 'I deeply deplore the huge growth of litigation'

Interview: Hady Wakefield

Subtle analysis of better health

"REINSURANCE?" says Mr Hady Wakefield. "It's changed hugely in the last 20 years. It's much more sophisticated – but also much less gentlemanly. The old days of the 'have another drink, old boy, write me another 5 per cent of the risk' way of operating are dead."

At 50, Mr Wakefield has been a reinsurance broker since 1968, and now occupies one of the foremost positions in the Lloyd's broking fraternity, as chairman of C.T.Bowring (Reinsurance) and Winchester Bowring. Both are parts of US-based Marsh & McLennan, the world's largest insurance broker.

His analysis of the state of the reinsurance community at the turn of another decade is a subtle one. What it presents is a picture of an industry in many respects much healthier than in the 1970s and early 1980s, but facing the challenge of embracing information technology as a way both of cutting costs and creating new business opportunities.

An Old Etonian, educated later at Trinity College, Cambridge, where he read law, Mr Wakefield is used to thinking analytically, and well-placed to comment as a broker whose clients among primary insurers include such large US carriers as Fireman's Fund and Allstate.

Asked what he means when he says the reinsurance market is more sophisticated but less gentlemanly, he points to three changes.

First, the market is technically more efficient. "Underwriters get their premiums more quickly, and they also pay claims – particularly property claims – much more rapidly than 20 years ago. At the same time, he see a second important change, towards the sharper, tighter wordings of reinsurance treaties and contracts.

Twenty years ago, he recalls, if you asked a Lloyd's reinsurance underwriter what he meant by the term "catastrophe", the underwriter would have been shocked by the suggestion that he needed to do so. "The underwriter just assumed that when a claim came in, he'd be around to say what the words of the policy meant," recalls Mr Wakefield.

Attitudes like that are now a thing of the past, he says, adding: "The big tightening was in 1985." During the hard market, when premium rates were on a dramatic upswing for US property/casualty risks especially, underwriters also refined their definitions of coverage. An example is the much-closer definition of "hours clauses," which set limits to the duration of catastrophes – such as earthquakes – covered by the reinsurer.

Unfortunately, this closer scrutiny of terms, conditions and wordings has had its downside.

The third change that Mr Wakefield identifies is the now widespread tendency for the parties in a reinsurance argument to reach rapidly for their lawyers. "I deeply deplore the huge growth of litigation and litigiousness," he says, estimating that more than 50 per cent of his working hours are now spent coping with litigation-related matters.

Much of the litigation in the London market generally arises from disputes over the meaning of 20- to 30- and 40-year-old policies, often involving US liability insurance claims. The wrangle over the extent of the R.H.M.Outhwaite syndicate's exposure to North American asbestos and pollution-related losses is the best-known example in London – and one in which Winchester Bowring is heavily involved as a broker – but it is far from being the only case.

In theory, this kind of problem should gradually diminish in scale, as tighter policy wordings and closer legal definitions, both in original insurance policies issued in the US, and in reinsurance policies written in London, start to narrow the scope for argument. But, says Mr Wakefield, "that's still 10 years away. The market is going to be squabbling over US pollution claims for a long time yet."

The cost of handling and clearing up the so-called "long-tail" of claims under old policies underwritten many years ago has helped squeeze reinsurance brokers' profit margins, says Mr Wakefield. "It's huge expense," he says, and especially vexatious at a time when the difficulty brokers find in placing some large-premium business – especially US casualty – has also been reducing their revenues.

This point helps explain his enthusiasm about the prospects for saving money and improving service in the London market by using information technology, particularly networking and electronic mail. C.T.Bowring is one of the main driving forces behind C-DEX, a project initiated by D.P.Mann, the Lloyd's underwriting agent, and intended to allow electronic placing of risks by brokers with underwriters.

A C-DEX pilot scheme is due to start in early 1990, handling North American property/casualty treaties, one of Mr Wakefield's main areas of activity. "North American reinsurance is appropriate to start with because it's big business, it's straightforward, it's easy to understand and it catches people's attention," he says.

The objective, if schemes like this can be made to work in London, would be to streamline working practices and cut out much of the paper-shuffling which still bedevils the market. Mr Wakefield is especially exasperated by the cumbersome nature of the present Lloyd's systems of claims settlement:

"The fact is we just cannot go on with this ludicrous system of claims brokers carrying round their files to 25 separate underwriters on a risk, going through the same story with each one and inviting each one to contribute his six penn'orth."

Perhaps surprisingly, Mr Wakefield is less agitated about another major issue for reinsurance brokers: the trend for primary property and liability insurers, especially in the US, to buy less reinsurance, retaining more of their own risk.

"People are re-examining the rationale of reinsurance. I don't regret that," he says. "I'm not fundamentally distressed about the move towards higher retentions: it's rather healthy."

His point is that, as primary insurers grow larger, so that even apparently sizeable losses matter less, it is natural enough for them to look at saving bottom-line profits by pruning back purchases of reinsurance. "Take a hypothetical US insurer, which has to decide whether to retain the first \$50m, or the first \$100m of any one loss. He could save \$7.5m to \$10m in premiums by doing the second in some circumstances."

The thing that is bothering the world's major reinsurers is not so much the fact that retentions are going up. "What they're concerned about is the business mix they're getting," he says. "They don't want to end up just underwriting catastrophe reinsurance, rather than seeing more bread-and-butter business."

Nick Bunker

BROKERS

Success depends on new products and cost-cutting

WITH THE volume of reinsurance business contracting, rates low, and expenses steadily rising, reinsurance brokers face tough times ahead.

"The position," says Allan Nichols, of stock analyst James Capel, "is awful. There has been a dramatic decline in profit margins."

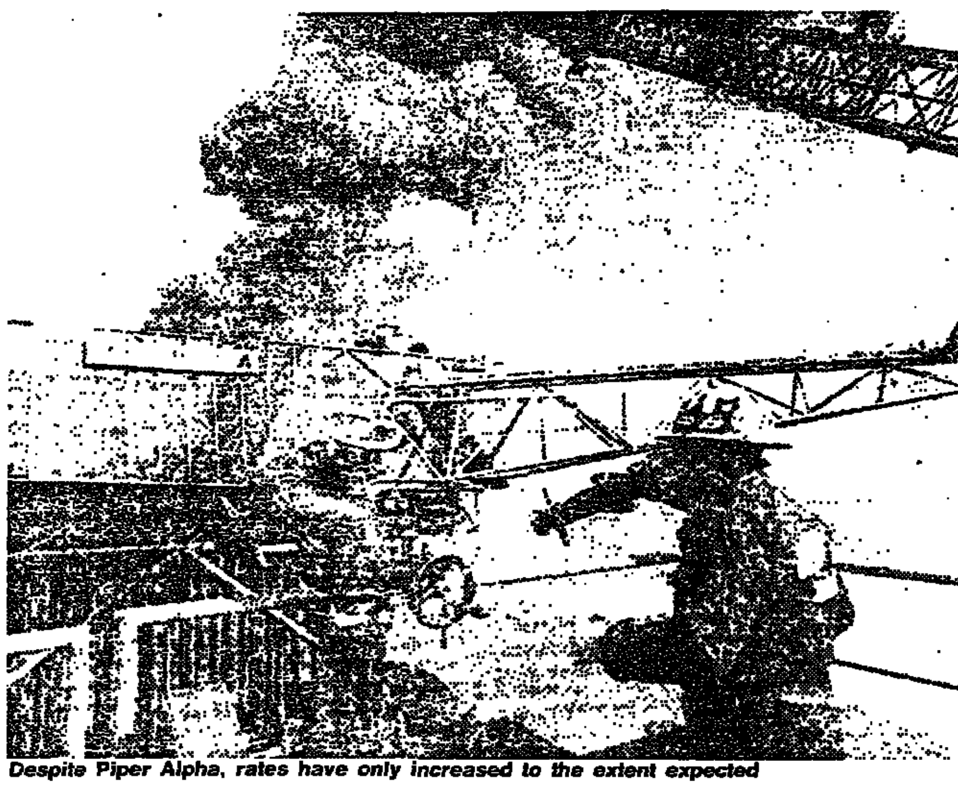
Compared with the heady days of the late 1970s and early 1980s, 1987 and 1988 were bleak years indeed for brokers, with revenues declining in many cases and profits shrinking. In the short term, the stronger dollar offers some respite for bigger London-based brokers, but in the long term success will depend on the degree to which the sector is able to cut costs, while at the same time developing new products and services.

During 1988, the revenues of the top 20 international brokers grew by only 5.2 pr cent, according to one recent survey. Last year, therefore, was the worst but one – that was 1983 – since the early 1970s. Revenues at Sedgwick, Frank B.Hall and several major European brokers declined, with the poor performance of reinsurance broking subsidiaries a major contributory factor. At E.W.Payne, the reinsurance subsidiary of Sedgwick, revenues fell by nearly 20 per cent, compared with 1987.

Falling rates for reinsurance, in both the US and Europe, are clearly one of the main reasons for the decline. Rates in the specialist aviation and marine sectors have been notoriously soft. And in the offshore sector, despite last year's Piper Alpha disaster, rates have only increased to the extent expected in the highest excess of loss covers.

The decline in the crucial non-marine sector has been less marked, especially when compared with very big rate cuts that have been taking place in some areas of the direct insurance market; but here brokers have been faced with a fall-off in business as the volume of reinsurance *transactions* has *continued to* decline. That fall is due to the tendency of many direct insurers to retain more risks for their own account, a tendency, ironically, increased by the current differential between direct and reinsurance rates.

Many brokers are convinced that the decline in reinsurance volume will continue. According to Morris Mindel, director of non-marine broking at Alexander Howden Reinsurance Brokers, the recent merger activity among European insurance companies means that direct insurers are becoming bigger, have stronger solvency margins and can afford to keep risks that they would formerly have ceded to reinsurers.



Despite Piper Alpha, rates have only increased to the extent expected

"When rates do harden," says Mr Mindel, "we are going to find that a significant percentage of worldwide cedants will be able to afford to retain a bigger share of their business for their net account."

In the short term, brokers are banking on the continued strength of the dollar to boost prospects in 1990. According to Jim Payne, chairman of E.W.Payne, between 50 and 60% per cent of his company's business is transacted in dollars. But with no with no strengthening of rates likely in the coming renewal season, the highly competitive conditions that have characterised the sector in recent years will continue, underlining the need for changes in the way bigger reinsurance brokers have traditionally operated.

Brokers are likely to develop much closer links to the reinsurers with whom they place business. "We have to make sure we are making the best use of the reinsurance market," says Mr Mindel, referring to the informal reciprocity emerging between some brokers and reinsurers. If brokers place reinsurance with the the same reinsurer consistently, that same reinsurer is more likely to seek the services of the broker when looking for his own outward protections.

"Eight years ago – apart from security considerations – we wouldn't have thought twice about where we'd have placed the business. Commercial pressures mean that you have to use leverage to increase the volume of business," says Mr Mindel.

More thoroughgoing changes, involving the cost structure of reinsurance brokers, are also afoot. The difficulty here, though, is that brokers have been forced to cut costs precisely when expenses, particularly those incurred in dealing with long-tail claims from the US are rising.

According to Mr Payne, the cost basis of reinsurance broking is increasing substantially. "We're having to manage yesterday." In addition, increased investment in technical and information systems is also reducing the room for manoeuvre.

At one level, big brokers have reacted to these problems by being much more selective about the business they write. "Nowadays there is much more awareness of the profitability of accounts among brokers," says Mr Mindel. "Today's brokerage could be tomorrow's cost."

Mr Nichols agrees that brokers are now "much more careful to see whether the business they handle is profitable". He adds that some types of reinsurance business, especially that involving Third World countries, to which travel is expensive and where there may be currency and payments problems, "are regarded as not worth the effort".

At the same time, a number of brokers have shed staff and introduced management and organisation reforms, in a bid to increase efficiency. The changes are in line with a new emphasis on service to clients, where brokers are responding to the decline in traditional treaty reinsurances with new products, including tailor-made programmes for the international exposures of direct insurers and financial reinsurance which offers "balance sheet protections".

Among other covers that brokers are actively developing in London are insurances against computer crime, product contamination, asbestos abatement and additional forms of liability. Brokers are responding to the increasing development of self-insurance and captive insurance in the US and Europe, by offering captive management and consultancy services. Mr Nichols comments that "there has been an attitudinal change among reinsurance brokers", who are now not prepared to simply sit back and wait for an upturn.

As competitive pressures intensify, analysts expect the rationalisation, which has characterised the sector in recent years, to continue, with some smaller and medium-sized brokers disappearing; but they are convinced that efficient small brokers can survive in the new environment in which the market will become more concentrated by developing highly specialist services.

Richard Lapper

Banks now have to take LC liabilities on to their balance sheets

Large writers must rethink market share

BANKERS are increasingly supporting the demands of the reinsurance industry with their ability to provide a high standard multi-currency international service. But changes in the financial insurance and reinsurance markets are challenging the role played by the banks, requiring some fleet footwork from the leading players.

In particular, while there have been no dramatic developments in terms of enhancements to the banking products that serve the reinsurance industry, the last year has seen the full realisation of important changes for the banks themselves.

Specifically, the Bank of International Settlements' (BIS) requirements on capital adequacy for banks have laid the ground for a potential shift of power within the business.

The need for banking products to serve the reinsurance market arose from the requirement to guarantee insurer's collateral, particular where relationships across international borders were involved.

The business has long been dominated by the leading US banks which, with Citibank to the fore, developed the main products, the Letter of Credit (LC) and the more recent Regulation 114 Trust. The heavy US bias of the business is no coincidence, arising directly from the dominance of the US in terms of the world's premium income.

Now, however, while bankers are looking to find more and more imaginative uses for these and other products, for the first time they will have to take their LC liabilities on to their balance sheets.

This has already had a significant effect in curbing long-standing downward pressure on pricing of large ticket LCs – although players point out that competition will ensure that much pricing remains extremely fine. "A lot will depend on how banks decide they want to manage their balance sheets," confirms Judith Mortimer Sykes, of Bank of America.

Judith Mortimer Sykes: growth potential in one-off business

The implications of the balance sheet requirement is arguably greater for the largest writers of LCs, like Citibank which will have to address the question of whether they want to, and then how they will, preserve a formidable market share in the traditional reinsurance business.

There have already been *examples where major* recipients of LCs have been offered dramatically increased prices by their providers. One bank tells a story of being approached by a client asking it to better a price from a competitor, and finding itself unable to do so. Prices have risen by anything from 10 to 30 basis points depending on the size of the business involved.

At the same time, overall volumes have been steady, lacking any significant growth. "Things aren't booming for the traditional LC industry," says Ms Mortimer Sykes, "but there is real growth potential in one-off larger business."

One-off business can cause headaches for the banks, particularly in the financial reinsurance area. A bank *might* be asked to price, say, a seven-year transaction in which the client cannot allow for any unforeseen costs during the life of the arrangement.

It is understandably hard for banks to undertake such risk without sometimes then wondering whether the client has been given a bargain. However, David Garner, of Citibank, comments: "We're used to evaluating risk and pricing it. It's no different in specialist areas, except that we can be talking about seven-figure premiums."

Financial reinsurance has been something of bandwagon over the last year, with some notable new entrants, especially in Bermuda where Centre-RE was only the biggest and highest-profile new player, stunning the market with its announcement of a $200m capital base.

Mr Garner thinks financial reinsurance is set to be a huge growth area. "The traditional business is now well established, and you can only really there compete on price and service quality," he says. "By contrast, the building of a product structure in the financial reinsurance area offers us the opportunity for incremental profits as we find new banking relationships or ways of enhancing existing relationships."

One example of the use of LCs for novel financial insurance can be found on the Eurobond market, where the growth of mortgage- and credit card-backed securities has opened a market for credit enhancement using LCs to guarantee the credit of part of an issue.

Thus, a bank, usually a third party to an actual issue of securities, offers credit guarantees to all or part of a deal using LCs, taking a fee and allowing the issuer to claim a top credit rating which should attract investors to the paper.

To some extent, such developments have overshadowed the debate which dominated the market last year, that between advocates of LCs and those of the newer Regulation 114 Trusts.

Then, players like Manufacturers Hanover were arguing that Trusts represented the way forward for the reinsurance market, offering a cheaper and more flexible alternative to LCs. In Autumn last year, Manufacturers Hanover launched a new Trust product using an SEC-registered mutual fund as the framework of a flexible, cheap credit reference.

The aim was to compete *directly with the much larger* and more established LC market which was still dominated by Citicorp and a handful of other banks, including Barclays and Midland.

Trusts have failed to make the dramatic in-roads their advocates were predicting, mainly because the State of California has still not granted regulatory approval for the Trust vehicle, thereby restricting its role to special deals.

Looking back, Ms Mortimer-Sykes thinks Trusts were an area where banks were possibly ahead of their client base, and that the real market for Trusts lies in the future.

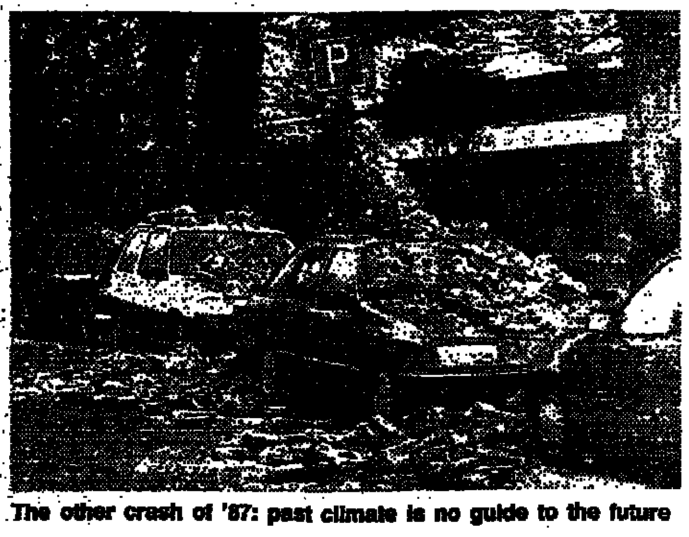
Also in the future lies electronic networking of the management of risk and financial reinsurance. Citibank sees a significant opportunity in Europe to develop a network, and in October is beginning a business initiative to explore ways to open up the market.

In the mean time, the growth of LIMNET and RINET offers opportunities for banks to expand the range of electronic banking services they offer to clients, at the same time diminishing the role played by intermediaries a brokers.

Andrew Freeman

CATASTROPHES

A change in the weather



The other crash of '87: past climate is no guide to the future

"A FEW years ago, the British insurers bought catastrophe reinsurance mainly for Caribbean and Australian risks. Now they are buying catastrophe cover predominantly to protect their UK exposures," says Graham Dimmock, manager of the non-marine department of Swiss Re's London office.

He was commenting on the growing number of heavy claims that are hitting insurers and reinsurers of UK weather exposures.

Storms, floods, and freezes in north-west Europe are generating an increasing number of catastrophe insurance claims, and should, on the basis of technical factors, lead the insurance industry to re-evaluate the way it covers the risk. A significant hardening of the market would result.

Instead, the dominant response to date among reinsurers has been to cut rates; and, with competition for market share fierce in the run-up to 1992, many pundits believe that the market will remain soft for some time to come.

Even before the storm of October 1987 – known on the London market by its Lloyd's catastrophe number 87J – devastated the south-east of the UK, north-west France and parts of Norway, evidence indicating that weather patterns in north-west Europe were changing fundamentally was growing, with claims arising from a combination of winter freezes, on the one hand, and winds and floods on the other, hitting insurers.

Between 1964 and 1979, British insurers met claims for only one catastrophic weather loss. By comparison, there were a further eight such losses in the next eight years, with the losses having an increasing impact on international reinsurance markets. This experience, combined with a serious increase in the number of freeze losses in France, and heavy claims from the Netherlands, Norway and Ireland, is leading many insurers to reassess their understanding of European weather patterns.

"The significant thing," says Andrew Dlugolecki, of General Accident, "is that there has been greater evidence of extreme weather events."

In the UK, a consensus appears to be emerging that the relatively mild westerly weather enjoyed for the greater part of this century, until the late 1970s, is changing. There is an increasing frequency of losses due to prolonged anticyclones or "blocking highs". These periods of sustained high pressure function as "weather mountains", diverting milder westerly airflows around the country.

In winter, the blocking high is associated with freezes, which cause losses due to burst pipes, mainly in domestic property. In summer, the high pressure results in long periods of hot weather, but this too can result in insurance claims, through property damage from subsidence.

The average number of days per year of low pressure or cyclonic weather systems, in which storms are more likely to occur, has also increased in the last 40 years. According to Graham Farmer, of the Climatic Research Unit, at the University of East Anglia, in Norwich, between 1950 and 1980 the annual number of westerly days declined by about 30 per year, while the annual number of cyclonic days increased by around 10.

All these trends are leading some insurers to reassess the the statistics on which the rates for weather insurance are based. For example, on the basis of Admiralty calculations, surges in the level of the North Sea, on the scale that in 1953 inundated over 500 square miles of the east coast, are expected to occur once every 200 years. But, according to Mr Dimmock, since this return period was calculated in the early 1960s the one-in-200-year surge level has already been observed 11 times – a statistic which must make a repeat of 1953 (which caused damage of £50m at 1951 values) more likely. With insurance for flood damage now much more common among British householders than in the early 1950s, potential exposures could be several billion pounds.

Losses for insurers and reinsurers are also potentially greater, because there is now an increased prospect of two catastrophes in one underwriting year. If the probability of a damaging European storm rises to one in five years, then every 25 years we would have the prospect of two such events in one year. With most reinsurance catastrophe covers written with only one automatic reinstatement, this is bound to cause problems for direct insurers. "A worldwide cover blown today by a European storm might be hit again tomorrow by a tropical storm, leaving insufficient time to organise adequate reinstatement cover," says Mr Dimmock.

There is already considerable evidence that this increase in exposure is leading to a higher incidence of claims and losses. Mr Dimmock says that European weather reinsurance is becoming increasingly unprofitable for reinsurers. According to figures produced by Jeremy Hindle, of Swiss Re (UK), reinsurance results have deteriorated. Between 1979 and 1988 the loss ratio (the proportion of losses paid or payable to premiums earned) for first-layer UK catastrophe covers was over 210 per cent.

Theoretically, insurers should be able to accommodate these changes by increasing the costs of the policies they sell. According to Dr Dlugolecki, this has already happened in some direct insurances, with the rate of buildings' insurance for home-owners gradually increasing over the past 10 years from £1 per £1,000 to around £2 per £1,000. However, with the exception of the excess of loss and retrocession markets, where reinsurers reinsure other reinsurers, rates for reinsurance have not increased in line with the new exposures.

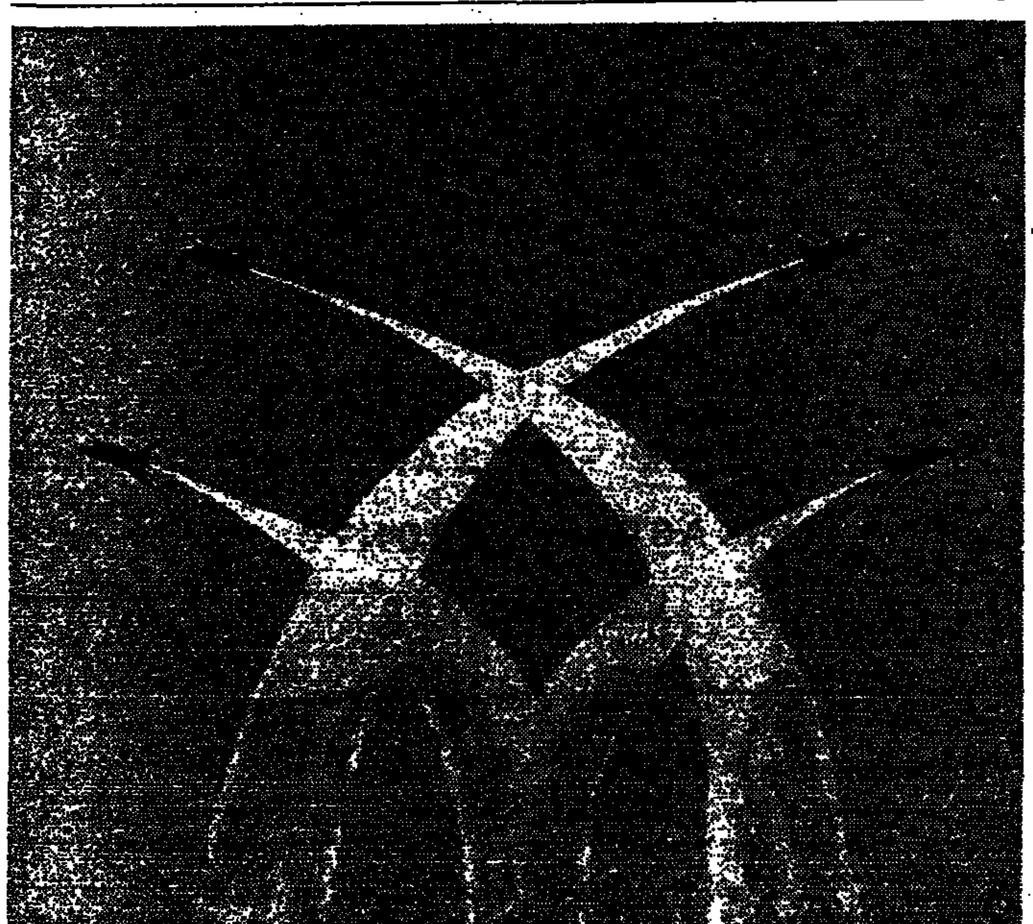
Although reinsurance rates initially increased sharply following 87J, there has been "a considerable softening at the edges" more recently, according to one underwriter. Sun Alliance, who in 1985 opted not to reinsure their UK weather exposures, have recently re-entered the reinsurance market, in part because reinsurance rates have become cheaper.

A number of reinsurers are now arguing publicly for a change in strategy. A Munich Re spokesman claimed recently that the increase in hazard potential must have an effect on the evaluation of risks and rates. Others argue that underwriters should buck market trends and refuse to write European catastrophe covers unless rates are adjusted sharply upward – even if it means losing market share.

Mr Dimmock believes reinsurers must re-examine the risk. "In line with the changed character of the risk, underwriters must fundamentally re-evaluate the way they write European weather exposures." An essential component of such a shift is that insurers must begin to retain more European weather risk exposure for their own account."

However, recent rating practices on international markets indicate that none of this advice is being heeded. Fierce competition among reinsurers in the run-up to 1992 is leading to rate-cutting. The problem, according to one prominent London underwriter, is "overcapacity". "It is not that people aren't aware of the problem," he says, "but there is nothing you can do about it."

Richard Lapper



Eric Short discusses a new opportunity for life reassurers

Cover for dread diseases

OVER THE past few years a radical development has taken place in the UK life assurance market – the introduction of the Dread Disease or Critical Illness contract. And the life reassurance companies, particularly Mercantile and General Reinsurance and Victory Insurance, have been to the forefront.

The method by which these contracts have been devised mirrors the whole range of services provided by a modern life reassurance company to its direct life company clients.

The protection element incorporated in life company contracts is either the payment of a lump sum on the death of the life assured before the contract terminates, or payment of an income if the life assured becomes permanently disabled. The primary function of a reassurance company is to provide *cover on these two protection* elements for their clients.

Under a Dread Disease of Critical Illness contract, some or all of the death benefit is paid in advance at the onset of a serious illness, such as cancer or heart disease, or on permanent total disability, though not AIDS.

Reinsurance companies, by the nature of their operations, are more international than direct life companies, though this is changing. Mercantile & General became familiar with this contract and the protection it offered through its South African operations.

Life reassurance business is highly competitive in the UK. The reassurers are under constant commercial pressure to seek new areas of business. Dread-disease cover provides them with a significant opportunity to open up a new area of protection where their services would be in demand. Hence Mercantile & General and Victory have both been marketing the concept to direct life companies with varying degrees of success, offering advice, help and guidance on all aspects of these new contracts.

First, since this is a brand new area for UK life assurance, the precise nature of the cover has to be spelt out in the contracts to avoid any problems in payment of claims.

There were problems initially in South Africa over the wording of these contracts and the cover provided. Mercantile and General's experience in South Africa has enabled it to advise clients on the wording of contracts. Although these contracts have only been in existence in the UK for a short time, to date there have been no outstanding problems over disputed claims.

The proposal-form questions are quite detailed, with greater emphasis on financial underwriting

Second, while there is ample data on mortality rates in the UK, there is less on morbidity rates for these serious illnesses.

Actuaries seeking statistics on which to base the premium rates for this level of protection are retracing the footsteps of their actuarial forefathers over 200 years ago in determining mortality rates.

David Grimshaw, one of the actuaries at Mercantile and General responsible for the development of these new contracts, found it an exhilarating experience, seeking out data and producing the necessary rates on which to base the premiums.

The international nature of reassurance companies provides them with a wider knowledge of such information sources than is normally available in a direct-writing UK life company. And reassurance companies dealing with many life company clients tend to have a wider data base of experience.

Even so, the rates used for dread-disease contracts are as speculative as those for life contracts 200 ago, with substantial built-in margins and the right to change rates in the light of claims experience from these contracts.

This development requires wider underwriting techniques than with pure life cover, with much more attention being paid to family history.

Although underwriting of life contracts remains the responsibility of the direct life company, with the reassurers following the basis of the direct company under the Treaty arrangements, the reassurers have held lengthy discussions with the direct company underwriters as to the questions to ask on the proposal form and the medical evidence that should be obtained.

Indeed, the proposal form questions are quite detailed, in contrast to the one or two questions asked for just life companies. There is greater emphasis on financial underwriting – the relationship of the life assured's salary to the level of cover being sought. For example, it is unlikely that a proposal for £250,000 of cover would be accepted from a person with earnings of £20,000 a year. The rule of thumb for financial underwriting is cover of four times earnings.

To date, there has been no outcry from the medical profession or pressure groups over this move, in contrast to the problems over seeking information on AIDS.

Finally, the reassurance companies have to rely on the marketing success of the direct life companies for their own business.

So it is in the interests of reassurers to provide every possible help and advice in marketing to their direct life company clients. This may appear unusual. Reassurance companies do not deal with the public directly, and any marketing experience comes second-hand. Nevertheless, since they deal with a variety of life companies, the reassurers see the results of a wide range of marketing activities and are able to provide valuable advice

Reassurance companies were very much to the forefront in guiding direct life companies in dealing with the problem of AIDS. Again drawing on international experience, particularly in the US, it was possible to control what could have turned into a potentially dangerous situation.

Matters relating to AIDS have been relatively quite over the past 12 months, in contrast to the hectic activity and considerable controversy of the previous years. However, the House of Commons select committee on social services, in a recent report, urged the Government to seek co-operation from life companies in not asking on proposal forms whether a person seeking life assurance had had an HIV blood test.

At present the committee is seeking voluntary action by the life companies, but the request has been turned down by the Association of British Insurers. If any action is taken, it will mean compulsion by the Government, and a complete reappraisal of life assurance underwriting by reassurers and life companies.

REINSURANCE 8

Rachel Davies considers the implications for the industry of two recent legal cases

Lloyd's re-examines form J1 after criticism by the Lords

TWO CASES of significance have emerged this year. *Vesta v Butcher* in the House of Lords, and *Meadows Indemnity v Insurance Corporation of Ireland* in the Court of Appeal.

Vesta emphasises the marital nature of the insurance and reinsurance relationship, whereas *Meadows* retains a sharp distinction between the two policies.

Vesta involved what the House of Lords described as back-to-back reinsurance, in respect of loss caused to a fish farmer by storm damage. The insurance and reinsurance policies each incorporated a warranty that a 24-hour watch would be kept over the farm. Each policy provided that breach of warranty would render the contract null and void.

The farmer's failure to keep a watch was irrelevant to the storm damage, so that by Norwegian law, the law of the original insurance, breach of warranty could not make the contract null and void. By the English law of the reinsurance, however, breach of warranty, whether relevant to the loss or not, rendered the reinsurance null and void.

The reinsurers might have argued the English law into predominance on a conflicts of laws basis, had they not included the Lloyd's J1 form "follow the settlements clause" in the policy. By that clause, they had agreed to reinsure against loss on the same terms and conditions as the original policy.

As well as claiming the protection of English law, they said the follow-settlements clause had been emasculated by a claims control clause, by which no payment should be made under the original insurance without their consent.

The House of Lords said the claims control clause did not emasculate the follow-settlements clause. All it did was to show that the underwriters were entitled to negotiate a settlement of any Norwegian proceedings brought by the fish farmer against Vesta, the original insurer.

As the two policies were back to back, said the House of Lords, identical warranties must have the same effect in each policy.

Thus the Norwegian law of the original insurance effectively overpowered the agreed English law of the reinsurance.

The situation highlights the conflict between the easier marketability of local law insurance to a foreign insured who naturally prefers a policy governed by a law that he understands, and the English reinsurer's natural preference for a law he understands and has used world-wide on innumerable transactions.

The mirror-image nature of the back-to-back policies means that, despite express provision for English law as the governing law of the reinsurance in accordance with the intention of the parties, the governing law is effectively Norwegian law.

The House of Lords did not look at it as a conflict of laws issue. It looked at the basic contract, and asked what did the English underwriter agree to insure. He agreed to insure the risks in Norway, and that took him back to the original risk in the chain.

According to Katharine Lacey, of Clyde & Co, solicitors for the reinsurers in Vesta, the decision could have a serious knock-on effect in the reinsurance chain. Underwriters no longer have the protection of English law, but must dig out the pitfalls of the law of the original insurance before contracting.

For example, she says, in Norwegian law the contract would not be avoided for non-disclosure unless the non-disclosure is material and causative of risk, whereas in the UK non-disclosure, however immaterial, will avoid the contract.

The laws of some foreign countries are considerably more obscure and inaccessible than those of Norway. A reinsurer in a long chain could well have problems digging out the locality of the original contract he is indirectly covering, let alone its governing law.

It could be worse, however. With a bit of thought and proper negotiation, the problem is not insurmountable. Lord Templeman, in his judgment in Vesta, indicates that the reinsurance policy can provide expressly that the warranties are to have different effects in the two policies.

He said the reinsurers' liability in *Vesta* could have been limited by express provision that a breach of warranty by the insurer would absolve the reinsurers, even if an identical breach by the fish farmer did not absolve the insurer.

Even so, the reinsurers are still going to have to know their foreign law to make sure they put in the necessary express terms, unless they can think of some standard clause which will effectively eliminate danger in all cases.

The scapegoat in the litigation was the Lloyd's J1 form, which came in for some criticism by the House of Lords. It was described as "inelegant, ungrammatical, obscure". Lord Bridge said the only people who could expect to profit from its obscurities were the lawyers.

This is being remedied. Their Lordships' comments have been taken to heart, and Lloyd's is looking at form J1 with a view to its alteration.

The Norwegian law of the original insurance overpowered the agreed English law of the reinsurance

In September it goes before a Lloyd's Underwriting Non-Marine Association (LUNMA) sub-committee of experts, advised by Lloyd's solicitors, who will come back with a recommendation for the full committee. The Lloyd's committee system is reputed to operate efficiently, so no great delay is anticipated.

In contrast to this unwilling (on the reinsurer's part) marriage of original and reinsurance, rendering them one in the eyes of the law, in *Meadows* we find reinsurers who would have liked some such relationship but were denied it by the court.

Meadows had reinsured insurance of a loan agreement on which the borrower defaulted. The insurer did not pay up. It was alleged that, in the negotiations, representations had been made which affected the validity of the insurance and the reinsurance contract. The insured lender began proceedings in Ireland.

Meadows claimed a declaration against the lender, to the effect that the insurer could avoid the insurance. It claimed to have sufficient "interest" in the subject matter of the declaration to give it *locus standi* to participate in the battle between lender and insurer.

Mr Justice Hirst took the same view. He said Meadows had "a real interest" and was not a "stranger to the dispute".

The Court of Appeal disagreed. They said it was true that Meadows had a direct interest in the validity of the original insurance in the sense that avoidance would eliminate its own liability. But, it said, there was no contested issue between Meadows and the insured, and a court's declaratory power was limited to declaring the contested existing or future rights of parties to an issue, not those of non-parties.

Thus, an attempt to take on litigation rights attaching to the insured only, failed. Despite the "interest", the insurance and reinsurance policies were distinctly separate contracts.

Meadows is not appealing because, according to its solicitors, Ince & Co, it has got what it wanted despite being struck out. Its aim was to get the lender bank, Commercial Bank plc, involved in the London action. A stay of third party proceedings by the insurer, Insurance Corporation of Ireland, against the bank was refused, so that Meadows had a tactical success.

What has lain dormant ever since it disappeared from the House of Lords list last year, is the prospect of a satisfactory conclusion to the *Phoenix* issue.

In *Phoenix* the Court of Appeal decided that contracts made in the course of unauthorised insurance business were void and illegal. The result, generally considered disastrous in the Lloyd's market, is that the innocent insured cannot recover in respect of loss under such a contract, and a reinsurer is not obliged to indemnify an unwittingly unauthorised insurer.

The House of Lords appeal was listed for February last year and salvation was anticipated, or at least hoped for, but it disappeared and *Phoenix* passed quietly away through settlement.

However desirable it may have been for the parties to have settled, it is disappointing to find that the question of unauthorised insurers still needs to be sorted out.

Not only that, the settlement eliminated the first ever non-governmental *amicus curiae* brief, before it had a chance to be heard.

An *amicus curiae* is a "friend of the court" who does not take sides, but whose task is purely to assist the court by clarifying the likely impact of legal issues in a particular context.

In *Phoenix* the brief, filed by Ince & Co on behalf of the UK insurance market, was regarded with some excitement as a development in English law in line with US appellate courts and the European Court of Justice. Until now all *amicus* briefs in the UK have been filed on behalf of governments, so this was an innovation, and was felt to be particularly needed in the specialised and custom-ridden context of the commercial world.

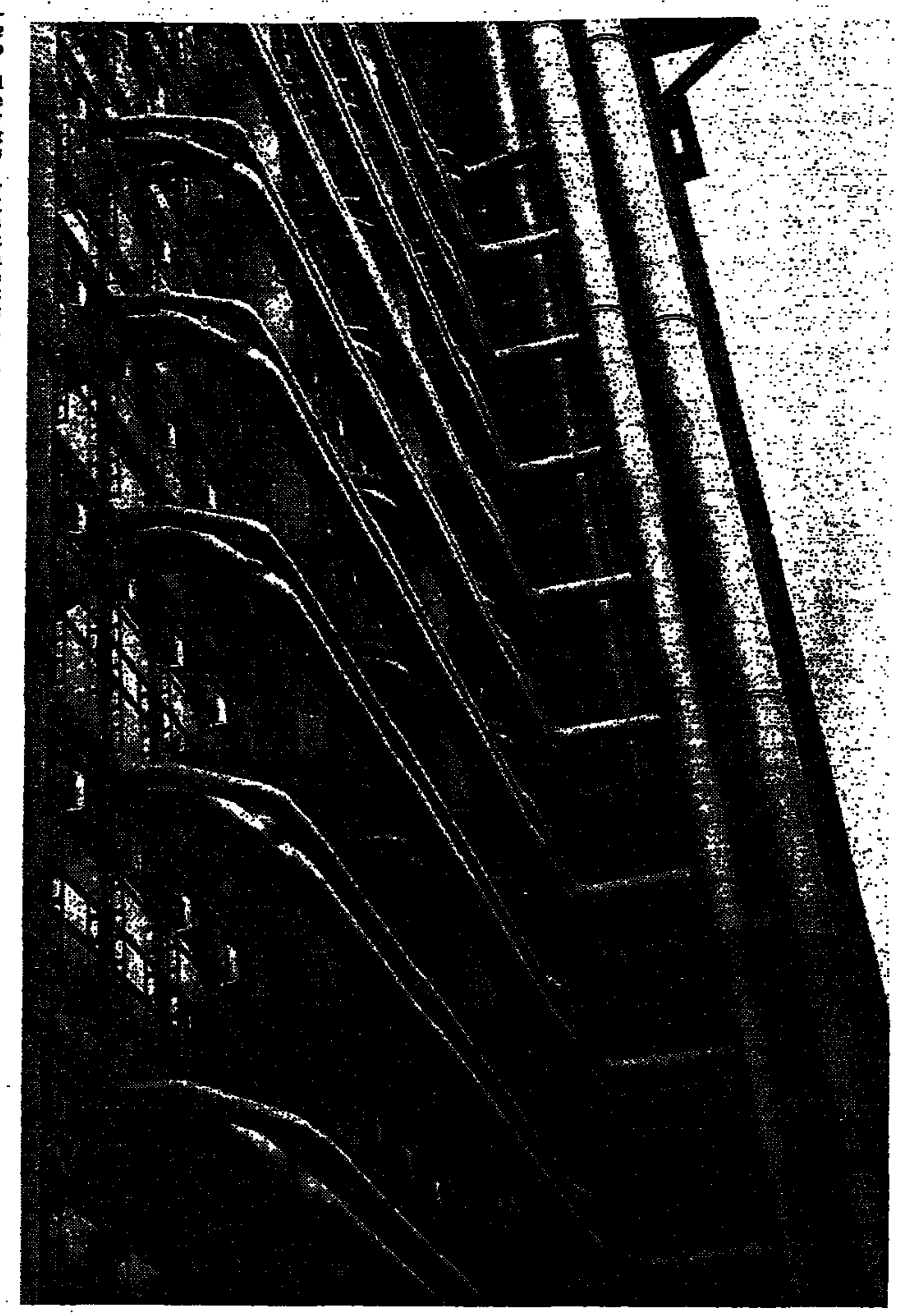
Some of the impact of *Phoenix* has disappeared with the coming into force of the Financial Services Act 1986. By section 132, unauthorised insurance is still unenforceable, but the insured can recover money paid, as well as compensation for any loss sustained.

Under section 132(3) however, the court has a discretion to allow an unauthorised contract to be enforced if satisfied that the unauthorised insurer reasonably believed he was authorised, and that it is just and equitable that the contract should be enforced.

This covers contracts made after November 1986 when the Act came into force, but does not help previous contracts, which are still subject to the *Phoenix* position as stated in the Court of Appeal. In other words, insurance contracts entered into by unauthorised insurers before November 1986 are still illegal and void, so that the insurer need not pay the claims of the innocent insured, and reinsurers need not indemnify insurers

The recent case of *Re Cavalier* exemplified the situation at first instance. Paying the "highest respect" to *obiter dicta* in *Phoenix*, the Chancery court held that statutory "prohibition" on unauthorised performance of a particular class of insurance, renders the contract void and illegal.

Vesta v Butcher - FT February 3 1989; Meadows Indemnity - FT June 14 1989; Phoenix - [1986] 2 FTLR 665; re Cavalier - FT June 21 1989


Architecture at Lloyd's: more elegant than form J1 — Ashley Ashwood

FINANCIAL TIMES
COMPANIES & MARKETS
Monday September 4 1989

INSIDE

Depressing news for the financial world

Few people in the international finance business can have been cheered by last week's news of the proposed merger between Mitsui Bank and Taiyo Kobe Bank of Japan. The alliance will produce the second largest bank in the world – which is bad enough in a business already dominated by Japanese institutions. Even more depressing, writes David Lascelles in the Business Column, is the fact that the plan gives the lie to the idea – gaining ground in western bankers' minds recently – that Japanese bankers had ceased to be preoccupied with sheer size. Page 36

More angry words

The war of words accompanying the £13.5bn bid for BAT Industries continued over the weekend as the Hoylake consortium headed by Sir James Goldsmith (left) attacked its target's performance and accused the board of attempting to frustrate the bid. BAT responded to the lengthy letter sent to shareholders in response to its defence document by describing Hoylake's remarks as "highly selective and misleading". Page 25

Murky waters expected

Bankers are predicting market confusion when pricing of the standby credits for the British water authorities that became public limited companies last week becomes known. The reason? Those authorities perceived by banks to be the best credits are not necessarily those receiving the finest terms. Stephen Fidler and Andrew Freeman report. Page 22

Conundrum in New York

A flash in the pan or a market rally? Last Friday's queer performance by the US credit markets has posed a conundrum. The New York markets are closed today for the Labor Day holiday so the world will have to wait at least until tomorrow, and possibly longer, for an answer. But, writes James Buchan, it will be worth waiting for. Page 24

Market Statistics

Companies in this section

The politics of central banking

By Anthony Harris
in Jackson Hole, Wyoming

"You have some nice foothills here," said a Swiss central banker; the kindest thing is to put it down to the altitude.

The Grand Tetons are everyone's idea of a mountain range, but because they rise 6,000 ft from a marshy plain that is already 7,000 ft up, they look a little less grand than they really are. They breed a slight light-headedness, and some pretty bad jokes. If you haven't heard the one about the squaw on the hippopotamus, don't let it worry you. (It has something to do with Pythagoras, and wild bisons will not make me divulge any more.)

Every year the Federal Reserve Bank of Kansas City, which covers a vast area from the Mississippi to the Rockies, invites bankers and academics to a symposium in this wonderful resort, and every year a still more prestigious crowd accepts the invitation. The Swiss was perhaps jealously aware that Jackson Hole is now a serious rival to Davos among the financial élite. It is a place where you *can go up a trail looking for* bears, and find Mr Alan Greenspan.

This does not inspire quite the same awe. When you take a central banker – even a chairman – to these altitudes, and dress him in jeans and sneakers, he becomes relaxed and unusually candid. The discussion this year, on the challenges for monetary policy in the 1990s, was a great deal less dry than you might expect.

The central problems, as the practitioners described them, are now seen as political rather than technical. This is because there is no longer any accepted rule on which policy can be based; yet markets like to believe that actions are guided by deep principles, and politicians have to be persuaded that deflation is technically *necessary, even if it is* unpopular.

There appear to be no believing monetarists left, if there ever were any. There are very few practising ones, either – though Mr Leonhard Gleske, a veteran director of the Bundesbank, said that German experience showed that the markets are much comforted by monetary targets. The trick is to give clear and honest explanations of why you cannot actually stick to them at any given moment.

Mr Gleske argued that it is international money flows which make the money numbers misleading.

He went on to suggest that in large, and therefore relatively closed, economic units the quantity theory might prove to work after all, so that if 1992 leads in *the end to a European monetary* union, it may be a monetarist one.

This is a long way off, though. As our own governor explained, a monetary union is the coping stone rather than the foundation of an economic union. (There is unfortunately no space here to re-report his equally thoughtful analysis, which appeared last Friday.) Mr Greenspan might have wished to put another reservation: the US is a large and relatively closed economy, with less than 10 per cent of GNP exported, but the quantity rules have broken down here, too.

Meanwhile, what does a central bank tell its two constituencies – the financial markets and the politicians? One politician has no doubt: Congressman Stephen Neal, chairman of the House committee on monetary affairs, came to the mountains to lobby for a bill he has drafted which would enact a duty to give priority to securing stable prices.

He will have encountered no opposition here: one central banker after another adopted this slogan – and the conference host, Mr Roger Guffey, required a toast to price stability if you *joined him for a drink.*

This ideological purity was contained in a more technical slogan adopted by several speakers: policy targets should be nominal, never real quantities. It sounds clear, but it is not what they actually do: and one market analyst at the meeting, Mr Leonard Santow, is preparing a study which shows that the Fed makes fewer mistakes when it is "fine tuning" than when it is following a technically pure rule.

Mr Guffey, who is uneasy with fine tuning, is one of the regional Fed presidents who are playing such a large role in US monetary policy at the moment. They were flexing their policy muscles in little groups all over the conference. These were the men Mr Richard Darman, the Budget Director, had in mind in his recent criticism of Fed over-caution; but they do not have to appear before Congress.

It does not seem likely that Mr Neal's colleagues would be entirely happy if Mr Greenspan went to the Hill and explained that, since his duty was to stabilise prices, he could take no responsibility for any recession which might result. Indeed, a rival bill would guard against this by making the Fed more political. It would add the Treasury Secretary to the policy-making open market committee and insist that policy decisions should be published at once, instead of six weeks late, as at present.

Central bankers nearly all believe that *they need to preserve* some mystery to help them in dealing with their market constituency; the strategy should be clear, but not the tactics. There may also be a clash between domestic targets and a second objective much discussed here: stabilising exchange rates. The objectives have been stated repeatedly since the Plaza meeting; but the most effective tactics are surprise raids which cause dealers to lose money. Then they support the strategy.

Again, though, things are not as clear as they seem. "Appropriate" exchange rates, like price stability "in the long run", can mean different things to different central bankers. And the objectives are not set just by economic analysis, but by political needs.

For the US, as some speakers conceded, it means a dollar rate low enough to keep protectionism at bay – but certainly not low enough to satisfy academics like Dr Rudiger Dornbusch. For Canada and Australia, as their officials explained, it means a rate which offsets swings in commodity prices, and spares them the fate of Texas. British arguments about the petro-pound are similar. It is all a matter of balance.

It was an enlightening parade of dilemmas. Can all these objectives be reconciled? Can central bankers always say what they really mean? Do they always know what they mean? And, as long as most of them produce results as good as most have recently, *does it matter?* My questions, your answers.

A hard lesson in the art of the deal

James Buchan on what looks like another success for Donald Trump

For nearly two years, Donald Trump has been all over New York, not only in person but on the cover of a best-selling book.

His tyro glare and crimson tie leap out at you from the satchels of trainee real-estate brokers or from under cash registers at Korean wine merchants. The book is called: The Art of the Deal.

Mr Trump, who is 43, may just have delivered his most advanced lesson in the deal-making art.

His unfortunate pupils are Mr Merv Griffin, a some-time singer, talk-show host and television producer who bought a couple of casinos off Mr Trump last November, and the junk bond investors who put up $325m to finance the deal.

On August 28, *Mr Griffin,* who is 64, announced to nobody's surprise that he would stop paying interest on the bonds. He did not actually default, because coupon payments are not finally due until October. But the credits have collapsed.

Last November's bond issues, though they are mortgages on Mr Griffin's profitable casinos in *Atlantic City*, New Jersey and the Bahamas, were quoted by one Wall Street firm at the end of last week at 62 cents on the dollar. The casinos' $590m-odd in unsecured debt was bid at prices of between 28 and 35, according to Mr James Bennett of R. D. Smith, a firm specialising in distressed securities.

This devastation in value suggests a number of things. It shows that Mr Trump drives a hard bargain. It shows that business in Atlantic City is tough now that 11 casino hotels are *competing for custom along the* famous Boardwalk. And it shows that the big financial institutions buying junk bonds can be as innocent as an elderly slot-player bussed in from Brooklyn. As a credit specialist put it on Thursday: "Looking back, with retrospect, in hindsight, they were insane."

The key to the story is the *Resorts* casino, an old Atlantic City hotel which was the first house to introduce casino gambling in New Jersey in 1978.

In the middle 1980s, the company overextended itself trying to build a vast new casino next door, called the Taj Mahal. After many twists and turns, and a parade of figures ranging from millionaire car-dealers to dubious baronesses, *control passed to Mr* Trump in 1987. Mr Griffin tried to buy the company from him in March 1988, and, after some to-ing and fro-ing, the two agreed to break it up last November.

Mr Griffin put in $60m of his own money and issued $325m in junk bonds to buy the Resorts and Paradise Island casinos, the lease underneath the nearby Showboat casino, various parcels of undeveloped land in Atlantic City and other bits and bobs.

Mr Trump, who is best known as a real estate developer, formed a new company, put $75m of his own money into it and borrowed $675m in junk mortgage bonds to finish the building of the Taj Mahal. Much of his equity, or some $63.7m, he got back from Mr Griffin as the price for buying out his management contract.

The Griffin bonds were underwritten by Drexel Burnham Lambert, the Wall Street firm which brought casino financing out of the twilight of Mob money and union pension funds by selling nearly $3bn in junk bonds to equip the Atlantic City industry. But last November, its bond investors were scared by the $600m-odd in unsecured debt that the Resorts casinos were already carrying and demanded interest rates as high as 13⅞ per cent on *the mortgages.*

Even this was excessively optimistic. The bond prospectus made clear that the casinos could not cover the $133m in annual debt service *from* what people left behind on the tables and in the slots. Real estate would have to be sold to cover the difference.

As it turns out, the Atlantic City casino market is now saturated, competition between the 11 casinos is ferocious, revenues are rising at about 4 per cent a year, which is much less than labour and other costs, and Resorts's *market share is falling.* According to the Griffin camp, cash flow is actually an exiguous $60m a year and there are buyers so far for only about $4m in Atlantic City real estate. The Showboat lease, which is thought to be worth $50m-$100m, is still being marketed.

The junk bond investors cannot put the company into Chapter 11 of the bankruptcy code, because no payment has yet been missed. On September 15, they will be invited to Atlantic City to vote on an exchange offer, which will inevitably involve the rescheduling or forgiveness of principal and interest.

Ironically, it could be Mr Griffin who puts the company into bankruptcy to convince the New Jersey *casino regulators that it is* financially sound and can retain its licence. After all, a bankrupt company is protected from its creditors.

In contrast, Mr Trump, who already owns two Atlantic City casinos, is set to control the world's largest gaming house for essentially no cash investment of his own. Some $470m has already been sunk into the building.

If Mr Trump can finish the thing for the same amount or less in the next year or so, analysts say, he will make a lot of money. The Taj Mahal mortgage bonds are priced at 99 to the dollar, which suggests a measure of confidence in his building skills.

"It does seem," said a credit analyst, "that at this moment, Donald has done better than Merv. Maybe, *Merv doesn't know* all that much about financing and he's more a creative type, with Vanna and all that. Donald understands financing."

Economics Notebook

Calm in the face of pressure

JAPANESE economic policy makers have been basking in international praise for so long that they have almost forgotten what it is like to be criticised. But they are not particularly dismayed by the recent emergence of some cavilling from the US and other foreign governments.

The one thing they remember from past skirmishes is that foreign pressure tends, paradoxically, to help make Japan an even more successful economy, and they are confident that this will be as true in the future as it has been in the past.

Since *the spring of 1987, the* government has been vigorously implementing its promise to do its bit for world economic growth by maintaining domestic demand at a brisk pace.

While gross national product growth has risen from only 2.6 per cent in 1986-87, to 5.2 per cent in 1987-88 and 5.1 per cent last *year, domestic demand* has been the star performer and the external contribution has been negative.

The fact that imports have not grown as quickly as most economists would have expected, given the sharp revaluation of the yen against the dollar, is a source of embarrassment, as was the resurgence of exports late last year.

But for the past two years Japanese officials have walked into most international councils with their heads held high, knowing that they will be praised for the thrust of the country's economic policy.

However, they were startled out of their complacency a few weeks ago, when the new US ambassador to Tokyo, Mr Michael Armacost, suggested that the government should do more to stimulate domestic demand.

"The expansion of domestic demand this year won't come close to last year's impressive performance," Mr Armacost grumbled in a speech in July. He added that the government had lots of scope for spending on the country's still Third World-standard infrastructure, especially as there were now surpluses in both the government and private sectors; Japan's "twin surpluses," as he called them in an eloquent echo of the well-known US problem.

The consensus view among Japanese economists is that domestic demand is likely to grow at slightly above 5 per cent *in the current fiscal year*, compared with a lofty 6.8 per cent hike last year. Whether that qualifies as "not coming close" is perhaps a matter for personal taste. But it is still strong for a mature industrial economy, and its effects are provoking worry among both private and public sector economists about a possible outbreak of inflation.

By some measures, the economy is operating above its potential capacity, and the job market statistics are giving the Bank of Japan fits. Seasonally adjusted unemployment in July stood at only 2.2 per cent. The ratio of job offers to job seekers rose to 1.35, the highest since April 1974. And everyone remembers what happened then – the inflation rate jumped in the subsequent months to a peak of 35 per cent.

Largely because of the strength of the domestic economy, Japanese officials are also suspicious of Mr Armacost's beguiling argument about the twin surpluses.

It is certainly true that Japan's public sector now has the means to finance virtually any amount of fiscal stimulus it might want to apply. However, if it did so at a time when the economy was running at full capacity, the injection might be largely absorbed by price increases rather than become a contributor to a reduction of external balances, a finance ministry official said last week.

It may be that Mr Armacost was just putting down a marker for the moment when the Japanese economy's growth rate does start to flag, and the MoF puts up its usual resistance to a fiscal stimulus on the specious grounds that funds have to be salted away for the anticipated surge in pension requirements in the future.

He may also have been trying to increase the pressure on the Japanese to propose substantial reforms of their distribution systems and other structural trade barriers at the bilateral talks that get under way next week in Tokyo.

In either case, Japanese economic policy makers are taking it all calmly. They have come to appreciate foreign pressure as a positive force for improving the Japanese economy and economic institutions.

For example, five years ago the US and Japan began what came to be called the yen-dollar talks with the aim of deregulating Japan's financial markets so foreign financial institutions could compete on a more equal basis with the Japanese banks and securities houses. Today, with most of the deregulation completed, the foreigners have – with a few rare exceptions – got nowhere in the Japanese market, while local institutions have become much more competitive and profitable.

Perhaps the US could achieve its goals more easily in negotiating with the Japanese in the next few months by threatening to withdraw its pressure.

Ian Rodger

THIS WEEK

UK CONSUMERS come into the spotlight this week with three sets of figures that will provide clues about the strength of their spending and borrowing.

Final figures for retail sales volumes in July today are likely to show year-on-year growth almost at a standstill. Provisional figures – which could be substantially revised – showed sales 0.6 per cent lower than a month before and only 0.2 per cent higher than a year earlier.

Also today are figures for consumer credit in July. In recent months signs of a slowdown caused by high interest rates have been – at most – tentative.

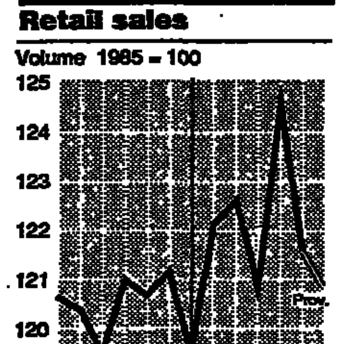
On Thursday the Confederation of British Industry/Financial Times distributive trades survey will give the first indications of the strength of retail sales in August and expectations for September. This month the survey also includes questions on imports, retailers' capital expenditure, confidence and selling prices.

Other UK statistics include official reserves figures for August released today. Intervention by the Bank of England is thought to have been limited. The consensus of City analysts' forecasts, compiled by MMS International, the financial research company, is an underlying fall of $250m.

Also likely to be closely watched by financial markets this week is the meeting of central council of West Germany's Bundesbank on Thursday. Speculation about a rise in interest rates in the near future is increasing as inflationary pressures in the economy seem to be building.

Also in West Germany, second-quarter gross national product figures are expected tomorrow. Earlier figures suggested a year-on-year growth rate of 4 per cent, highlighting the buoyancy of the country's economy. Analysts will be looking for any signs of a slowdown.

Retail sales
Volume 1985 = 100



West German trade figures for July could be released sometime this week. Another large surplus is expected.

European Community economics and finance ministers, including Mr Nigel Lawson, the UK chancellor, meet informally in Antibes for a long weekend starting on Friday. Discussions are likely to include plans for European economic and monetary union.

US markets are closed today for Labor Day. Other events and statistics this week (with MMS International consensus in brackets) include:

Today: Organisation of Petroleum Exporting Countries meeting. UK, housing starts and completions in July. Capital issues and redemptions in August. Trades Union Congress annual conference opens in Blackpool.

Tomorrow: UK, Mr Peter Lilley, financial secretary to the Treasury, speaks on privatisation at Glasgow Business School. Halifax Building Society publishes monthly house price index.

Wednesday: UK, Department of Employment publishes Employment Gazette.

Thursday: Australia, August labour market data. US, wholesale trade date for July.

Friday: UK, construction output in second quarter. US, consumer credit in July (rise of $4bn). Bank of Japan releases short-term business outlook.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL LOANS

Water boards court bankers

INTERNATIONAL bankers are likely to be inundated with invitations today to join more than £7.7bn in standby credits for nine of the 10 British water authorities, which since Friday have been public limited companies operating under government control. Bankers are predicting some market confusion when the pricing of the credits – needed before the November privatisation of the authorities – becomes known. The reason: those authorities perceived by banks to be the best credits are not necessarily those receiving the finest terms.

Nevertheless, although some apparent pricing anomalies remain, the terms of some transactions have been altered in the two weeks since the mandates were announced. For example, what was a united front among the UK clearing banks – an unwillingness to enter a deal with a commitment fee of less than 12 basis points, which drew criticism from competitors and pressure from the borrowers – is now less than united.

Leading banks are, for some reason, under an embargo not to disclose the terms of the deals until today. However, according to bankers, National Westminster Bank (raising a £1.2bn credit for North-West and £450m for Welsh authority) and Lloyds, jointly with Manufacturers Hanover raising £1.5bn for Severn-Trent, now appear to be pricing their deals with a 10½ basis point commitment fee. At the same time, the £1.5bn credit for Thames – perceived by some bankers to be the best credit – is said to carry a 12 basis point commission. This deal is arranged by Barclays, which is also arranging a £800m deal for Anglian.

The margin if the Severn-Trent financing is drawn is expected to be 25 basis points above Libor, and that on the Thames deal 22 basis points. The £600m credit for the Yorkshire authority being arranged by Credit Suisse First Boston is said to have a 10 basis points commission and a margin of 25, while Wessex's £350m – one of three financings in which Manufacturers Hanover is involved in arranging – is said to carry a 7½ basis point commission, rising to 12½, with a margin of 22½.

Bankers point out that credit judgments about the authorities are complicated. Not only are they of a different size and perceived quality but also the regulatory environment under which they will operate will affect each authority differently. Some face larger capital costs than others for the mandated improvement of water quality and sewerage systems.

Elsewhere, the $1bn maiden international credit line being arranged by Volkswagen has been increased to $1.5bn by J.P. Morgan, the arranger. The seven-year credit, which carried a margin of ⅛ point over Libor rising to ¼ point if more than half drawn, was syndicated exclusively among non-German banks, the company having large arrangements already with domestic institutions. There is a commitment fee of 8 basis points on undrawn amounts.

Three commercial programmes were announced. Daiwa (Europe) was the arranger of a $500m programme for Prudential Finance UK, a guaranteed subsidiary of the UK insurance company. This marked the first time Prudential used the Eurocommercial paper market for short-term borrowings.

A $150m multi-currency programme for Atlas Copco was arranged by SEB London to increase and update an older programme. BZW arranged a £100m programme for Control Securities, the UK leisure and property company.

Stephen Fidler and Andrew Freeman

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,918.9	0.0	272.0	11,368.8
Prev	2,268.2	0.0	100.0	9,613.8
Other	1,128.9	43.5	358.4	2,190.9
Prev	1,583.2	14.5	160.0	2,414.0
Secondary Market				
US$	16,757.1	1,064.0	3,686.3	5,574.7
Prev	20,915.3	1,082.4	6,638.4	5,389.2
Other	13,494.9	1,347.3	4,339.5	27,775.7
Prev	14,077.6	1,402.0	4,599.2	26,541.2

	Cedel	Euroclear	Total
US$	8,809.6	31,832.2	40,641.8
Prev	11,088.5	34,918.8	46,007.3
Other	20,731.9	29,947.2	50,679.1
Prev	21,642.6	29,149.1	50,791.7

Week to August 31, 1989

Source: AIBD

EUROCREDITS

Regulators stand to gain from electronic monitoring

THE Securities Association's plan to monitor electronically Eurobond market transactions is the most far-reaching regulatory proposal ever to hit the market.

While the system, to be known as Cobra (Capture of Bond Reports and Analysis), will simply collect existing information from other sources, the data will be left in the hands of regulators with the authority to discipline participants for violation of market practices.

"We think the main effect is that it offers some form of deterrence," said Mr Lindsey Thomas, director of computer systems at TSA, who is overseeing the Cobra project.

Whereas the primary Eurobond markets have offered some degree of transparency while securities are still being placed with investors, secondary markets offer little, particularly for seasoned, secondary issues where few bonds change hands.

And it is in these securities, regulators say, that the greatest need to monitor market practices occurs. With profitability declining sharply in the Eurobond markets, dealers and regulators have commented on an increasing willingness to bend rules about good market practice in order to bolster returns. Regulators hope that even if the system pinpoints few actual violations of rules, it will at least have forced less scrupulous operators to curb some of their market practices.

Among the practices that regulators say the system will allow them to spot are front-running (firms dealing on information in advance of their clients), and the so-called practices of ramping and dumping which are organised efforts to create an artificial picture of demand or supply in a particular security.

Also, the system will allow regulators to see which firms are "overtrading" – taking on more business than their capital allows.

The system goes much further than tracking the most notorious market manipulations in the Eurobond market. Among other things, information reported to Cobra will require participants to disclose whether they are acting as agent or principal on each transaction, thus allowing regulators to see whether prices charged to clients are in line with those of the market. Reports to Cobra will also include client identification numbers so that regulators can see whether a client's account is being churned, whether it habitually makes heavy profits or losses or whether it frequently buys or sells at off-market prices.

Among the practices TSA is most concerned with involves off-market trading where a counterparty is induced to purchase securities at, say, 10 points below the market because the seller needs to dispose of a particular holding. In return, the counterparty is promised the opportunity to buy securities at an equivalent discount at a later date. TSA officials said the practice allows firms to build up exposures to each other that may exceed prudential rules.

TSA will also be able to examine transactions between dealers and interdealer brokers, and be able to assess whether prices quoted on brokers' screens are in line with where the securities have actually traded.

Also, according to Mr Thomas, Cobra will enable regulators to see information in a more useful format. For instance, data from the AIBD's (Association of International Bond Dealers) Trax system allows viewers with access to it to match all trades among members, but it does not, for instance, provide easy retrieval of all transactions of bonds of a given borrower. The new Cobra system will gather information from Trax as well as from Euroclear and Cedel, the two main clearing agencies, and from the Stock Exchange itself.

Meanwhile, the board of the AIBD meets today to consider the imposition of fines and penalties for members who fail to use the Trax system properly.

● The debt securities of UAL Corp's United Airlines unit – rated BBB and BBB-minus – have been placed under review for a possible downgrading by both Moody's Investors Service and Standard & Poor's. The action was prompted by the possibility, later confirmed, of a bid for the company by its pilots, management and British Airways

However, investors in at least two series of the company's bonds believed they had been offered some protection against just such a move by so-called poison put covenants contained in UAL's $150m issue of 12⅞ per cent bonds due 1995 and its $350m issue of 13 per cent bonds due 1999.

The catch is that while UAL is required by the covenants to repurchase the bonds at a price of 101 in the event of a change of ownership, it is only required to do so if both rating agencies cut the bond ratings to B-minus. Such a dramatic downgrading is highly unusual and considered unlikely. Thus, the poison put has failed to be effective against the type of scenario investors fear most.

In the meantime, takeover speculation about UAL has caused both series of bonds to fall sharply in the past three months to about 97 and 98 respectively from a price of about 104.

Norma Cohen

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Ishihara Sangyo Kaisha‡◆	250	1993	4	3½	100	Yamaichi Int. (Eur)	3.500
Tokio Marine & Fire‡◆	600	1993	4	3½	100	Nikko Secs. (Europe)	3.500
Nissan Diesel Motor‡◆	200	1993	4	3⅝	100	Daiwa Europe	3.625
Toho Rayon‡◆	100	1993	4	3⅝	100	Daiwa Europe	3.625
Oki Electric Industry‡◆	300	1993	4	3½	100	Yamaichi Int. (Eur)	3.500
Nippon Light Metal‡◆	300	1993	4	3½	100	Nomura Int.	3.500
Bandai Co.‡	100	1993	4	(4⅛)	100	Daiwa Europe	★
KFW Int. Finance◆	300	1994	5	9	100	Deutsche Bk Cap.Mkts	9.000
Turkey, Republic of(i)◆	200	1999	10	10¼	100	J.P. Morgan Secs.	10.250
Nippon Steel Int. Fin.◆	30	1993	4	9⅛	101⅜	IBJ Int.	8.703
Noritake Co.‡	100	1993	4	(4⅛)	100	Yamaichi Int. (Eur)	★
CANADIAN DOLLARS							
Royal Trust Bank(r)★★‡◆	205	1994	5	(r)	100	New Japan Secs.	-
AUSTRALIAN DOLLARS							
New S.Wales Treasury(j)◆	100	1999	10	11½	90.727	Bain Securities	13.224
Barclays Australia(o)◆	20	1991	2	14	98¾	BZW	14.767
C'wealth Bank Australia◆	100	1999	10	13¾	101⅝	Deutsche Bk Cap.Mkts	13.445
Australian Ind.Dev.Corp◆	75	1999	10	13¾	101⅝	Commerzbank	13.445
D-MARKS							
Rhythm Watch Co.‡◆	100	1993	4	1¼	100	Dresdner Bank	1.250
Yamatane Corp.‡	150	1993	4	(1½)	100	Nomura Europe	★
Japan Finance Corp.◆	150	1999	10	6⅞	101¾	Deutsche Bank	6.630
African Dev. Bank◆	200	1999	10	7¼	101½	Deutsche Bank	7.036
Amro Bank(m)‡◆	250	1999	10	1/16	100	Trinkaus & Burkhardt	-
EIB(n)‡◆	150	2006	10.2	-15bp	100.15	Salomon Brothers	-
Itoman & Co.‡	100	1993	4	(1½)	100	Dresdner Bank	★
SWISS FRANCS							
Dai-Ichi Katei D.(b)★★§◆	80	1994	-	⅜	100	Bqe Paribas (Suisse)	0.375
Dantani Corp.(l)★★§◆	40	1994	-	⅜	100	Handelsbank NatWest	0.375
Marufuji Sheet P.(a)★★§◆	40	1993	-	½	100	Credit Suisse	0.500
Harumoto Iron Wks(p)★★§◆	30	1994	-	½	100	Nikko (Switz)Finance	0.500
Viva Home Co.(c)★★§	200	1994	-	(½)	100	Nomura Bank (Switz)	★
Komatsu Seiren(d)★★§	70	1994	-	½	100	Credit Suisse	0.500
Tanifuji Machine(h)★★§	35	1993	-	(½)	100	Citicorp Inv. Bank	★
Carter Holt Harvey(q)§	125max	1994	-	(5½)	100	S.G Warburg Soditic	★
Toyo Sanso KK(t)★★§	30	1994	-	(½)	100	UBS	★
Oest. Laenderbank(u)‡◆	100	1999	-	4½	100	Handelsbank NatWest	4.500
General Co.(v)★★§	28	1993	-	(½)	100	Handelsbank NatWest	★
STERLING							
Nationwide Anglia(e)‡◆	75	2004	15	(e)	100	CSFB	-
EIB(f)◆	100	1999	10	10½	100.80	UBS Phillips & Drew	10.368
CMS No. 2(k)‡◆	250	2026	4¼	18bp	100	S.G. Warburg Secs.	-
National Westminster Bk◆	100	1992	3	12	101.30	NatWest Capital Mkts	11.464
ECUs							
Bacob Overseas◆	75	1992	3	9	101¾	Merrill Lynch	8.317
Japan Development Bank◆	200	1997	8	8⅝	101⅜	Credit Lyonnais	8.382
Swiss Bank Corp.Fin.◆	125	1994	5	8¾	102.05	SBC	8.233
Total◆	50	1994	5	9	102	Sumitomo Finance Int	8.493
LTCB Ltd.◆	75	1993	4	8⅞	101½	LTCB Int.	8.418
FRENCH FRANCS							
Ind. Bank of Japan◆	500	1994	5	8¾	101.30	Societe Generale	8.421
Interfin.Cr.National(g)◆	250	1996	7	8⅞	101⅞	CCF	8.509
SWEDISH KRONA							
GMAC Continental◆	200	1992	3	11¼	101½	Bankers Trust Int.	10.840
Finance for Danish Ind.◆	350	1994	5	11⅛	101⅝	Privatbanken	10.689
Union Bank of Finland◆	300	1991	2	11¼	101¼	Union Bank of Finland	10.525
AB Industrikredit◆	350	1994	5	11¼	101⅛	Svenska Int.	10.779
LUXEMBOURG FRANCS							
JAL Finance Europe(w)★★◆	600	1993	4	8	100⅞	BIL	7.737
Cregem Finance(w)★★◆	600	1995	6	8	100¾	BIL	7.839
TNT-IPEC Finance★★◆	300	1994	5	8¼	101	BGL	8.000
LIRE							
ECSC◆	200bn	1996	7	11½	100¼	B.Nazionale d'Lavoro	11.446
YEN							
Bacob Overseas(s)◆	2bn	1991	2	(s)	101⅛	Mitsubishi Fin.Int.	-

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Yield to put 2.886%. b) Yield to put 3.745%. c) Indicated yield to put 4.131%. d) Yield to put 3.789%. e) ⅜ over Libor first 10 years, step-up to 1% over Libor. Borrower option to reset at lower rate after 10 years if third party can be found to repurchase securities at par from those unwilling to accept lower margin. f) Fungible with £100m bond brought by Barings. g) Fungible with FFr750m bond launched in June. h) Indicated yield to put 4%. i) Put at 100 from Sept. 1994. Call at par in Sept. 1996. j) Exchangeable into identical domestic issue at any time. Fungible with A$70m issue. k) 18bp over 3-month Libor, rises to +50bp after 10 years. l) Yield to put 3.77%. m) 1/16 over 6-month Libor. Investor option to buy 6½% 10-year bond between Sept.1990 and 1993. n) 15bp under 6-month Libor. o) Further tranche of existing A$70m bond. p) Yield to put 3.704%. q) Investor can exchange one 3⅛% 87/97 convertible bond and pay for one new bond for two new bonds. r) Coupon linked to 3-month Canadian bankers acceptance rate. s) First coupon 6½%, thereafter 7% semi-annual. Redemption linked to Nikkei stock index. t) Indicated yield to put 4⅛%. u) Each SFr5,000 bond has one warrant to buy 72 participation certificates at Sch510 each(between Nov.89 and Oct.1994). v) Indicated yield to put 4.105%. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Westfield sells out of Channel Ten

By Chris Sherwell in Sydney

MR FRANK LOWY'S Westfield group has sold out of the Channel Ten network, becoming the first casualty in Australia's competitive commercial television industry since its ownership was transformed by media regulation changes in 1986.

Westfield Capital Corporation, the group's investment arm, disposed of its 52 per cent ownership of Northern Star, for a fraction of what it originally paid, after taking write-downs running to hundreds of millions of dollars.

The complex deal hands control of Northern Star and the network's Sydney and Melbourne television stations to Broadcom, an independent production house controlled by the AFP investment group. The other three stations in the network — Canberra, Adelaide and Perth — will go a group headed by Mr Charles Curran, a stockbroker.

The deal marks another aggressive move by AFP, which is run by a group of entrepreneurs including Mr John Gerahty, Mr Basil Sellars and Mr Peter Scanlon. AFP already controls Gestetner in the UK, recently acquired control of Hanimex and Wormald in Australia and is an investor in Harlin, which controls the Elders IXL group.

The deal also has implications for existing Northern Star shareholders, such as Associated Newspapers of the UK, which has 14.5 per cent, and for its creditors, who include Mr Rupert Murdoch's News Corporation, which is owed some A$250m.

Its most serious impact will be on market valuations of the troubled Bond Media, which controls the top-rated Channel Nine network, and Mr Christopher Skase's debt-burdened Qintex group, owner of Channel Seven, which has consistently run at number two in the ratings.

Each of these entrepreneurs paid top dollar to buy their networks after the Government relaxed its two-station ceiling on television ownership, only to see the 1987 stock market crash slash their value. Northern Star, at A$3.60 per share when Mr Lowy bought in, slithered to little more than A$1, and conditions since then have grown worse.

In recent weeks, as Ten's ratings have languished despite a management shake-up and comprehensive rescheduling of programmes, the shares have traded down to 46 cents. Mr Lowy, who made his fortune building suburban shopping centres, clearly felt the burden was too expensive.

Under the weekend deal:

● Broadcom has bought 19.9 per cent of Northern Star for 60 cents a share, using funds lent by Westfield. Broadcom has put four directors on Northern Star's board, including Mr Steve Cosser as chief executive and Mr Gerahty and Mr Scanlon. Broadcom has also agreed to produce programmes for the network at subsidised costs for 10 years.

● Westfield's remaining 32 per cent of Northern Star is being placed with various institutional investors. Ownership of the prime Sydney and Melbourne stations will remain with the group, but the other three in the network will be sold for A$185m.

● Northern Star will raise A$168m through a rights issue of six-year subordinated notes. Its properties will be sold, as will other surplus assets such as its holding in Barris Investment of the US, to realise another A$95m. Overall, Northern Star's debt will come down from A$650m to A$300m.

Asked about Mr Lowy's costly exit from television, Mr Cosser said on Saturday: "I think Frank came to the view this business had many imponderables and he didn't care to ponder them."

Milan bank 35% ahead and plans rights issue

By Our Financial Staff

MEDIOBANCA, Italy's largest merchant bank, posted a 35 per cent increase in net profit to L162.4bn ($117m) in the year ended June 30, up from L120.5bn a year earlier, and plans a L680bn rights issue.

The rights issue and a scrip issue will raise nominal share capital to L340bn from L204bn.

Mediobanca said the reason for the capital increase would be disclosed at the time of the shareholders meeting on October 28.

Mediobanca also said it would distribute a dividend of 20 per cent or L200 a share, both to shares in circulation and those that will be freely distributed.

Total dividend payout will amount to L54.4bn, up 33 per cent from the dividend paid a year earlier.

Net profit in fiscal 1989 came after L87.2bn in additional reserves for bad loans and devaluation of securities holdings. This compared with similar charges of L101.3bn in the previous year.

The Milan-based financial institution also reported that funds available totalled L12,859bn as of June 30, up 12.5 per cent from a year earlier, while loans outstanding amounted to L10,234bn, up 19 per cent from a year earlier.

Investments in securities of companies that it controls were valued at L1,264bn, up 14.5 per cent from a year earlier, while financial liquidity fell 10.9 per cent to L2,611bn as of the end of June.

The proposed capital operation follows a L520bn secondary public share offering last year when state holding Istituto per la Ricostruzione Industriale (IRI) decided to privatise Mediobanca.

Turning to the terms of the capital increase, Mediobanca said it proposes a one-for-three scrip issue consisting of 68m new ordinary shares.

This is the first time since 1983 that Mediobanca is arranging a scrip issue.

It also proposes a one-for-three rights issue of 68m new ordinary shares with a nominal value of L1,000 a share and a premium of L9,000 a share.

Way cleared for Noranda control of Falconbridge

By David Owen in Toronto

THE withdrawal on Friday by US-based Amax from the bidding for Canada's Falconbridge leaves the way clear for the diversified mining company to be taken over by Noranda in partnership with Trelleborg of Sweden.

The C$2.2bn (US$1.8bn) or C$37 a share Noranda-Trelleborg bid is the only offer left on the table for the Toronto-based nickel, zinc and copper producer. Conditional on at least 25m shares being tendered, it is due to expire on September 15.

Amax's prior C$36¼ a share offer had surprised many observers, since the group – whose principal areas of activity are now aluminium, coal, gold and molybdenum – had extricated itself from both nickel and zinc earlier in the decade.

From Falconbridge's viewpoint, the Amax bid forced Noranda, Canada's largest natural resources group, to make an offer for 100 per cent of the company rather than gradually accumulate a controlling stake, as its intention had previously been.

In the past year, Noranda, which is short of feed for its Horne copper smelter in Quebec, had inexorably amassed 23.8 per cent of outstanding Falconbridge stock. Its average purchasing price for these shares amounted to just C$24 a unit.

The past month's developments have considerably enhanced the reputation of Mr Bill James, the Falconbridge chairman, who has secured a better deal for his shareholders than previously seemed possible. Mr James and Mr Allen Born, the Amax chairman, were once colleagues at Canada's Placer Development.

● The Alouette aluminium smelter project is going ahead at Sept Iles, an iron ore and grain shipping port on the St Lawrence north shore. 700 miles north-east of Montreal, writes Robert Gibbens in Montreal.

The first stage, costing C$1.1bn and with annual capacity of around 210,000 tonnes, will be in production by April 1992. The second phase, costing around C$1bn, will follow by 1995.

The Alouette consortium has signed an electric power agreement with Hydro-Quebec, covering the supply of 360MW.

Lomas hints at seeking bankruptcy protection

By James Buchan in New York

LOMAS FINANCIAL, the Texas financial services company which is struggling with large losses and a heavy burden of debt, has hinted to its bankers that it would consider bankruptcy if they do not make concessions on their loans.

The thinly-veiled threat was made as Lomas, which has been hard hit in its mortgage finance business by the real estate recession in Texas, formally defaulted on $145m in debt.

The company is still locked in talks with its bank and insurance company lenders, led by Chase Manhattan, to provide a new credit facility to cover the $145m in notes and other debt coming due.

Wall Street saw the bankruptcy threat as largely a ploy by Mr Jess Hay, chief executive of Lomas, to hurry on the talks.

Mr Hay said Lomas would prefer "not to seek the protection of the court." But, he added, "we are committed to protecting and preserving the assets of Lomas and, to that end, we will take whatever actions will be necessary."

Lomas, which is battling to return to profit after two years of losses, said that by selling businesses it had reduced its debt from $5.7bn at the end of June to $3.8bn at the end of August. The company is now trying to sell its big commercial leasing operation to reduce debt by a further $1.5bn.

Aliança to sell shares at Es3,000

By Diana Smith in Lisbon

ALIANCA, the state-owned insurance company ranked sixth biggest in Portugal, will sell 49 per cent of its capital at a basic Es3,000 ($18.50) per share this month in the third privatisation this year of state-run concerns.

The company will sell 1m new shares and 470,000 state-held shares. At Es3,000, the issue would raise Es4.41bn, but the figure could be higher.

Aliança has been valued by consultants at Es6bn. It had revenues of Es13bn and gross investments of Es5.4bn in 1988 when its profits rose 27.5 per cent to Es348m. It forecasts an Es600m profit in 1989. Lucrative life insurance business helps offset heavy losses from vehicle and accident insurance.

Aliança has just capitalised Es500m from reserves to raise capital to Es2bn.

Sale of shares begins on September 15 with a public subsciption (441,000 shares) at cut prices of Es2,800 for employees, and Es2,900 for emigrants and small buyers.

Polygram silent on A&M

By Laura Raun in Amsterdam

POLYGRAM, the record company belonging to Philips, the Dutch electronics group, has refused to comment on reports that it is negotiating to buy A&M Records of the US for $500m.

Speculation has centred on A&M, one of the two large US independents, amid rapid consolidation in the record industry. Last month Polygram said it planned further acquisitions of popular labels after its purchase of Island Records, the UK independent.

Polygram is seeking to broaden its repertoire beyond classical record labels such as Deutsche Grammophon and Philips and by moving into popular music.

With sales of Fl 3.5bn ($1.6bn) in 1988 Polygram is the third largest record company in the world with 15 per cent of the global market and around 45 of per cent the classical market. The purchase of Island Records for around £200m ($300m) added another 2 to 3 per cent of the world market.

Philips, which owns 90 per cent of Polygram, refused to comment on the reports about A&M. It wants sources of software for its consumer electronic products such as compact disc players.

After the Island Records takeover Philips said it would publicly float 20 to 30 per cent of Polygram, which analysts believe could raise between Fl 500m and Fl 1bn. Institutional investors who own 10 per cent of Polygram are expected to sell their share.

FT-SE put warrant launched

By Katharine Campbell

BANKERS TRUST has launched a form of put warrant on the FT-SE index which allows investors to hedge bets on the course of the index *gratis* — for the next month, that is.

The issue of 500,000 warrants, worth about £120m and expiring on 31 March 1992, carries two alternative strike prices, September 1 or September 29. At 11am on Friday, the first of the two strike dates, the index stood at 2396.00.

The new structure plays on uncertainties in the market, where many investors are bearish in the longer term but wary of committing themselves to a particular level.

A purchaser of this put should see the warrant appreciate in value if the index falls between now and the end of September. Conversely, if the index climbs, the investor can take advantage of the higher strike price at the end of the month, effectively attaining a free option for the four-week period.

Investors pay £19.75 for each warrant, which represents a tenth of the sterling value of the index. This equates to a premium of 8.3 per cent and yields an implied volatility of around 18 per cent, according to Bankers Trust.

Previous index warrants have been criticised as costly, but the sweetener on last week's issue met with approval in some corners of the market.

Expanding Billiton to buy 35% of Quebec mine

By Kenneth Gooding, Mining Correspondent

BILLITON International Metals, the Royal Dutch/Shell division which has been aggressively building its worldwide mining operations, is buying a 35 per cent interest in Les Mines Selbaie, a leading copper, zinc and precious metals complex in north-western Quebec, Canada.

The stake was put up for sale some time ago by Imperial Oil, Exxon's principal operating affiliate in Canada. So far details of the terms have not been disclosed but might be given when the deal is finally completed on September 20.

Selbaie is 180kms north of Noranda and encompasses both open-pit and underground mines. Control is held by British Petroleum's Canadian offshoot which owns 55 per cent and manages the complex.

When BP recently sold most of its worldwide mining and minerals assets to the RTZ Corporation for US$4.3bn, its Canadian mining operations were excluded.

The third partner in Selbaie is a subsidiary of TransCanada PipeLines with 10 per cent.

Exxon's share of Selbaie's output last year was 900,000 tonnes of ore yielding 8,800 tonnes of copper and 16,200 tonnes of zinc.

Management, Page 15

Insider trading claim denied

By Robert Thomson in Tokyo

MR YASUO MATSUSHITA, president of Taiyo Kobe bank, has denied insider trading took place before the proposed merger with Mitsui Bank was announced.

The formal denial comes as the Tokyo Stock Exchange is conducting a "routine" investigation into a sudden surge of Taiyo Kobe buying before the announcement.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Mixed signals from economic data

A FLASH in the pan or a market rally? Last Friday's queer performance by the US credit markets has posed a conundrum. The New York markets are closed today for the Labor Day holiday so the world will have to wait till tomorrow, and possibly longer, for an answer. It will be worth waiting for.

What happened on Friday was this. Early in the morning, the US Labor Department reported that employment in the economy, as measured by non-farm payrolls, rose by 110,000 in August. Since this figure excluded some 108,000 striking workers at regional telephone companies, the job growth was deemed strong and thus bearish for the credit markets.

Coupon prices fell quite sharply, by as much as $\frac{5}{8}$ of a point for long-maturity bonds. But soon afterwards, the markets got hold of the results of the monthly questionnaire of purchasing managers at 250 manufacturing businesses around the country.

The so-called Purchasing Managers' Index, a statistical encapsulation of their business outlook, fell to 45.2 in August down from 46.0 in July. Typically, a reading of under 50 suggests that the manufacturing economy is in decline but the August reading was particularly eye-catching. Last month's index was the lowest since December 1982, when manufacturing was struggling to get out of recession.

The credit markets completely reversed themselves. By the early afternoon, most traders had left for their long weekend but by then long-term Treasuries were up the best part of a point to yield some 8.12 per cent. Some bullish noises were being made. The holiday air carried the hint of lower interest rates, like the first smell of the sea.

Admittedly, the fall in yields came in thin trading. "When the traders are in polo shirts and shorts, you have to be cautious," said Mr Robert Brusca, an economist at Nikko Securities. The purchasing managers' report also covers only manufacturing while ignoring the government or service sectors which make up such a big part of the US economy.

None the less, there was a lot in the survey that sounded well for the Treasury bond market. Most of the businessmen in the survey said that production, new orders, inventories and employment at their businesses were down. Most striking for the inflationary outlook was the easing in capacity constraints and the fall in commodity prices.

Vendor deliveries, which is how the purchasing managers measure capacity use, were faster for the fourth month in a row which suggests that demand for a wide range of materials has fallen. Meanwhile, the price index fell sharply from 46.9 to 43.1 with 29 commodities – ranging from polystyrene to steel scrap and copper – dropping in price and only nine rising.

For some economists, such as Mr Albert Edwards of Kleinwort Benson in London, these figures are bullish in the extreme. Mr Edwards argues that the purchasing managers index for commodity prices is a fairly good forecast of consumer price inflation, which is the key inflation measure for fixed-income investors. He believes that consumer price inflation next year could dip below 4 per cent from its current levels of about 5 per cent and open the way for a drop in long-term yields.

But other economists were more sceptical. Griggs & Santow, the money market commentary service, warned its subscribers not to jump to conclusions: "The focus is on the manufacturing sector and on only the large firms within that sector. Thus, 75 per cent or more of the economy is outside the view of this survey. Further, the level of the index is a pretty good indication of whether manufacturing is expanding or contracting, but it tells you very little about how much. In short, be very cautious in trying to generalise about the whole economy on the basis of purchasing managers' data."

Still, the survey is the latest in a string of hints that the US economy is not really going anywhere. Factory orders dropped 1.7 per cent in July, durable goods orders were down 2.2 per cent that month while the leading economic indicators were up only modestly, by 0.2 per cent. Despite lower mortgage rates, construction is still unexciting. Several companies that sold junk bonds at high yields in the hope of booming markets have defaulted or reported difficulties this summer.

Employment growth in August would seem to be the exception. But the markets have become distrustful of these figures since the Labor Department was forced drastically to revise the May, June and July estimates. Meanwhile, a good portion of the August gain, or 57,000 jobs, came in the government sector and this is probably temporary. Above all, there is still no real evidence of the sort of tight labour market which would push up wages and feed through into consumer price inflation. The average work-week declined in August, as did overtime and average weekly and hourly earnings. "It all adds up to a pattern of weakness," said Mr Brusca on Friday.

The US credit markets have been through two distinct moods this summer. Starting in early May, investors became increasingly convinced that the economy was heading for recession. This prospect began to recede sharply last month and yields rose firmly for fear that the economy was quite strong after all. The purchasing managers' report may set the stage for a third change of mood in which the market decides that there will be no recession and no boom in the foreseeable future, but it can still look wistfully for an easing in monetary policy by the Federal Reserve.

At the moment, it is hard to see the Fed acting to cut interest rates. A really pronounced weakness in manufacturing or in exports might do the trick. A repetition of October 1987, when stocks and junk bonds crashed, would also, no doubt, force the Fed to ease and work wonders for Treasury bond yields. But history is unlikely to repeat itself, one hopes.

James Buchan

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.94	8.88	8.87	10.00	6.27
Three-month Treasury bills	8.09	8.22	8.11	9.59	6.96
Six-month Treasury bills	8.17	8.33	8.11	9.59	7.42
Three-month prime CDs	8.85	8.75	8.55	10.15	6.77
30-day Commercial Paper	8.80	8.83	8.60	9.70	6.55
90-day Commercial Paper	8.67	8.65	8.40	10.05	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98¾	+¼	8.20	8.25	7.93
20-year Treasury	10	+½	8.25	8.31	8.05
30-year Treasury	100	+¾	8.15	8.18	8.07

Source: Salomon Bros (estimates).

Money supply: In the week ended August 21, M1 rose $4.8bn to $779.6bn.

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 31/8/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	150.24	5.65	150.20	148.14	147.73
Government Bonds	150.27	4.95	150.36	148.27	147.80
Municipal Bonds	152.21	6.31	152.04	150.06	150.16
Govt.-guaranteed Bonds	153.07	6.36	152.89	151.11	151.29
Bank Debentures	144.32	6.18	144.16	141.87	141.50
Corporate Bonds	152.60	6.43	152.43	150.50	148.95
Yen-denom. Foreign Bonds	156.79	6.09	156.60	155.26	153.04
Government 10-year†	5.05	–	5.01	5.06	4.96

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Interest rate gloom knocks prices

GILTS prices took another tumble last week as it began to dawn on more and more market participants that the outlook for interest rates might not be as rosy as first thought.

The Bank of England, through its recent money market operations, has done its bit to impoverish those optimistic souls, who a month ago thought the short sterling contract was telling the truth about the future downward course of base rates.

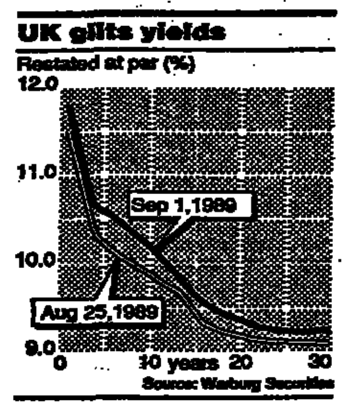
In the past two weeks the Bank has contrived to keep the money market short of liquidity until late in the day – a development which has led to a significant flattening in the money market yield curve from overnight money to three-month money at not far short of 14 per cent.

On Thursday the Bank was even able to take bills at cheaper prices than its official dealing rates.

This represents a significant change in the Bank's operations.

It demonstrates its apparent determination to support sterling at current levels – the cost of short-selling the pound is now more than 100 basis points more expensive that it was a couple of weeks ago – and, given the latest news and prognosis on the pay front, a determination which may well last for some time.

The change in tactics also appears to be a victory for those in the market who have been concerned about the slackness in short rates brought about by the Bank's purchases of gilts.



The Bank, through its increased sales of Treasury Bills, has turned the market from one which seemed perpetually to be in surplus to one which daily has a shortage that needs to be relieved.

The balance of power has therefore shifted decisively in the Bank's favour.

The growing appreciation of the Bank's change of tactics was not the only thing last week to make the market reassess the short-term outlook.

Wednesday's British Telecom pay deal – 155,000 workers got a 9 per cent pay rise – and Thursday's flash forecasts for August M0 growth underlined what many think is the need for monetary policy to stay tight throughout the autumn and possibly for all of the winter as well.

The reasoning here relates both to M0 and pay deals. It seems as if the starting point for pay negotiators this autumn/winter is 9 per cent, or a little higher.

If the authorities are to influence companies' pay decisions – to keep future deals at that level or lower – companies have to be squeezed and a strong currency and high interest rates are needed.

It is also looking increasingly likely that the July reading for M0 growth, and possibly retail sales, was misleading.

This could relate to faulty seasonal adjustment, strike and weather effects, or the influence of second-quarter pay deals on the pay packets of the nation.

Whatever the reason, M0 growth appears to be accelerating. The chances of its annual growth rate coming within the Chancellor's 1 to 5 per cent target range by the end of the year appear remote.

As for retail sales, there is a growing belief that July's 0.6 per cent fall was distorted and that August sales will show a bounce back.

This Thursday's FT/CBI distributive trades survey will therefore be greeted with more than usual interest.

■ LAST WEEK'S full money supply data confirmed, if confirmation were needed, reports of foreign investor interest in the gilts market during July.

The Bank scooped up £634m of gilts from domestic sources while foreigners bought £312m. At the same time, the Bank has modified the funding rule.

In its Bulletin it noted that the carry-over funding requirement was seen in terms of the past two financial years (£2.2bn), whereas in its May Bulletin the carry-over requirement was put solely in terms of the £2.5bn held over from the 1988-89 year.

The result is £300m left in the market's hands which, from the market's point of view, has to be better than on the Bank's balance sheet.

On the Public Sector Borrowing Requirement itself, the market has changed its view. It was sceptical of the decline path for the surplus forecast by the Treasury at Budget time and projected little change in the surplus.

In April, the FT average of City economists for economic growth was for output to rise by 2.3 per cent after a rise of 2.2 per cent this year.

The debt repayment was put at £15.3bn after rising by £15.9bn this year. Growth has now been downgraded by 0.2 percentage points to 2.1 per cent rise in 1990 but next year's debt repayment has been cut by £3bn to £12.9bn.

The market has clearly taken on board the Bank's comment that it expects a lower debt repayment than in the Budget forecast.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS · FLOATING RATE NOTES · YEN STRAIGHTS · OTHER STRAIGHTS · D MARK STRAIGHTS · SWISS FRANC STRAIGHTS · CANADIAN DOLLAR STRAIGHTS · ECU STRAIGHTS · AUSTRALIAN DOLLAR STRAIGHTS · STERLING STRAIGHTS · EQUITY WARRANTS · CONVERTIBLE BONDS

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STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex.yld=exercise yield at current warrant price. Closing prices on SEPTEMBER 1

UK COMPANY NEWS

EC Commission removes last regulatory hurdle in way of the bid

Plessey to raise dividend by 20%

By Vanessa Houlder in London and Tim Dickson in Brussels

PLESSEY, the electronics group facing a £2bn hostile bid from GEC-Siemens, has forecast a 20 per cent rise in its dividend in a document sent to shareholders this weekend.

Plessey said it was too early in the year to make a profits forecast, which furthermore, it felt was inappropriate because of its link with GEC through the GPT telecommunications joint venture.

The document, which was posted on Saturday, said that in the absence of unforeseen circumstances, the board intended to recommend a total net dividend for the year of 9.19p. Since 1985, an increase at a rate of 15 per cent per year had been achieved.

Plessey will this week complete a series of presentations to its 55 institutional shareholders, which together represent 60 per cent of the capital.

Meanwhile in Brussels, the European Commission has formally rejected a complaint from Plessey that the takeover by GEC/Siemens infringes the Community's competition rules.

The decision, which was widely expected following the provisional blessing given by Sir Leon Brittan the EC's Competition policy Commissioner, removes the last regulatory hurdle in the way of the bid.

Complaint concerned the agreement between GEC and Siemens to purchase Plessey, combined with plans for the future joint and/or separate management of certain assets.

The Commission said "certain elements of the agreement may constitute appreciable restrictions of competition within the meaning of Article 85(1) particularly concerning telecommunications and integrated circuits."

However, "in the light of the particular circumstances of this case", an exemption could be envisaged under Article 85(3).

TR Australia gets approval for change in policy

By John Thornhill

TR AUSTRALIA Investment Trust, a £45m fund managed by Touche Remnant, has won shareholder approval for a change in investment policy despite previous opposition from River Plate and General Trust, which holds a 29.9 per cent stake.

In a 10-minute extraordinary meeting held at Touche Remnant's offices at Puddle Dock in London, TR Australia's board carried two resolutions enabling it to concentrate its investments in higher-yielding Far Eastern stocks.

TR Australia also won approval to increase its authorised capital, to carry out a one-for-two scrip issue, and to make a bonus issue of warrants at a price of 105p.

Of the votes cast, 57.8 per cent supported the resolutions and 42.2 per cent were against. In view of the majority of the proxies in favour of the resolutions, River Plate said it would not seek a poll or try to adjourn the meeting.

Hoylake accuses BAT board of attempting to frustrate bid

By Vanessa Houlder

THE WAR of words accompanying the £13.5bn bid for BAT Industries continued this weekend as Sir James Goldsmith's Hoylake consortium issued a response to the BAT defence document.

In a lengthy document sent to shareholders, Hoylake attacked BAT's performance and accused the board of attempting to frustrate the bid.

In response, BAT described the Hoylake document as "highly selective and misleading". It said the letter did not contain a single new argument.

Hoylake has criticised the BAT management for using the US legal, political and regulatory processes to thwart the Hoylake offer. In its response, BAT countered by citing statements in its favour from US officials.

BAT also claimed that Sir James Goldsmith had failed in his attempts to uncover evidence that BAT had not performed for shareholders. "No feats of statistical manipulation can disguise the consistent strength of BAT Industries' outstanding record," it said.

Net assets rise at English & Scottish Invs.

Net asset value per 25p ordinary and 'B' share of English & Scottish Investors, the international investment trust managed by Gartmore Investment, stood at 168.2p at July 31, an increase of 14 per cent over the 147.3p standing at end-January 1989.

Gross revenue for the half-year ended July 31 rose to £2.73m, an improvement of 13.8 per cent over the figure for the opening half of the previous year.

After tax of £626,598 (£563,009), available revenue worked through at £1.61m (£1.34m), equal to earnings of 1.99p (1.66p). The interim dividend is a same-again 0.85p. In July, at the time of a £20m debenture stock issue, the directors said they were committed to maintain a dividend of at least 2.5p.

Crown increases Chiltern offer

By Vanessa Houlder

CROWN Communications, the commercial radio and broadcasting group, has raised its partial offer for Chiltern Radio, a private radio company, from £10 to £13 per share.

Crown is attempting to raise its stake to 29.99 per cent, the maximum level permitted by the Independent Broadcasting Authority, as part of its strategy of building stakes in radio companies in the south and east of England.

In its offer document it said that although it was not hostile towards Chiltern, it believed there was considerable room for improvement.

Chiltern Radio said that the offer grossly undervalued its shares. It intended to bring out a profits forecast within the next three days, it said. On Friday, valid acceptances of the offer had been received in respect of about 1 per cent of Chiltern shares, which brought its holding up to about 10.7 per cent of the share capital.

Investment costs take toll on ATA Selection profits

COSTS OF the investment programme have restrained profits at USM-quoted ATA Selection, but the new branches should contribute to the second half.

For the six months to end-June, turnover rose to £3.13m (£2.57m) but pre-tax profits fell to £404,000 (£437,000).

In the recruitment division three new branches were opened and the refurbishment programme continued. Existing outlets saw a growth in activity with turnover rising by 17 per cent.

Financial services lifted turnover by 45 per cent but money costs were materially higher because of increased interest rates. That reduced margins on the existing portfolio although profit was ahead of the 1988 comparison.

Earnings for the period were 2.17p (2.34p). The interim dividend is raised to 1p (0.84p).

Pennant loss expands to £687,000

Pennant Group, a Third Market company with interests in the fields of leisure and holidays in Norfolk and the Isle of Wight, suffered a rise in its losses from £481,000 to £687,000 for the first six months of 1989.

Interest charges rose £70,000 to £233,000. Profit on the sale of fixed assets increased by £25,000 to £39,000. Turnover totalled £1.32m (£1.18m).

Looking ahead, the directors said it appeared that the holiday industry was going to move away from the pure volume market and look for an improvement in profits and return on capital. They were hopeful that for 1990 Pennant would benefit from this trend.

Magnet £20m property deal

Magnet Group, the building products concern, has exchanged contracts for the sale and leaseback of 58 properties for around £20m.

The buildings, which include some Magnet retail outlets, have been bought by Lynton, the property investment and development company.

In two transactions this brings to 78 the number of freehold properties bought from Magnet by Lynton for a total in excess of £30m. The buildings, having a total floor area of about 1m sq ft, have all been leased back to Magnet for 25 years.

Ferrari Hldgs back in black

Ferrari Holdings, the provider of computer systems and services formerly known as Cifer, returned to the black in the year to June 30.

This USM-quoted company made pre-tax profits of £668,000 on continuing businesses, against losses of £205,000. Turnover leaped to £14.6m (£2.98m). Payable interest fell to £161,000 (£280,000) and, after tax of £212,000 (nil), earnings worked through at 0.29p.

In March Ferrari Computer Services reversed into the company and in July the newly formed Ferrari Holdings bought Message Data Switching Business and certain assets of Commercial Cable Company for £1.35m cash. Earlier this week the company made a £4m recommended offer for UCL, the troubled computer systems supplier. Details of a £3m rights issue are to be announced soon.

Stainless Metalcraft

Stainless Metalcraft, the stillage support structure subcontract with Strachan & Henshaw has been settled with a final value of £10.25m, which has been paid in full. The directors feel the sum yields a satisfactory profit.

CCS acquisition and rights

By Clare Pearson

CCS GROUP, the supplier of contract labour to the building trade, plans to acquire G Blagg, a West Midlands builders' merchant, from fellow USM-quoted company SEP Industrial Holdings.

To finance the £1.4m purchase of Blagg, CCS is launching a rights issue on a one-for-2.389 basis. SEP is also selling its half-share in Rankins Glass, which constitutes the rump of its building products division, for £400,000.

CCS joined the USM in April following the reverse takeover of Bluemel Brothers, the cycle accessories group.

The consideration for Blagg is being satisfied in cash by means of a vendor placing where all the shares will be offered to CCS shareholders.

SEP announced in March it was putting up for sale its building trade investments division in a move to focus attention on its now dominant industrial fastener distribution division.

It has warranted that net tangible assets of Blagg will not be less than £153,000 on completion, and that during the period from October 1988 to August 5 it made pre-tax profits of not less than £293,000. The 50 per cent holding in Rankins, bought for £428,000 in 1987, is being sold to Rankin family interests.

CCS announced taxable profits of £81,000 for the six months to end-May on turnover 27 per cent ahead at £1.72m, against £1.36m.

British Steel reminder of final instalment

Call notices have started to go out from British Steel reminding shareholders that the final instalment of 65p per share is due by September 26.

Members who fail to meet this payment will forfeit their shares. They will receive back the first instalment minus expenses.

The instalment will raise £1.3bn from nearly 400,000 registered share holders.

COMPANY NEWS IN BRIEF

DSC HOLDINGS requested temporary suspension of listing pending approval of reorganisation. Suspension price was 81p.

FORWARD GROUP has paid £2.2m for the freehold premises at Bracknell occupied by its Technolograph Microcircuits subsidiary.

GREYCOAT has paid £18m for the head lease of Roman House, Wood Street, EC. Finance will come from a deep discounted facility to compensate for the initial low yield. Greycoat has been granted a 150-year ground lease by the freeholder, which allows redevelopment.

NEW GUERNSEY Securities made £14,592 pre-tax profit for first half of 1989 (£13,045) after amortisation of preliminary expenses £4,327 (£6,334).

OCEONICS GROUP has conditionally acquired 81 per cent of Rimpac, Australian electronics company, for A$3m. In 1988 Rimpac incurred a net taxed loss of A£1.17m, and net asset value was A$339,000 excluding intangibles.

OPTIM GROUP, computer systems house, showed turnover of £6.m in half-year ended April 30 1989 (£3.79m) and losses at pre-tax level of £471,000 (£484,000). Extraordinary charge £351,000 for closure of Butel Technology. Turnover of £14m (£10m) expected for year and company again should be in profit (£506,000). Acquisitions included in figures: Optim Computers France; LPR Office Supplies (Herts); JPR (Office Equipment); Datawork Computer Services.

ROCKWARE has acquired Sentec, Lancashire-based metal products maker, for £750,000. Vendor is C Walker.

Interim progress leaves Record 19.5% up at £1.8m

GOOD PROGRESS was made by Record Holdings in the first half of 1989, with sales up 17 per cent and pre-tax profit ahead 19.5 per cent.

The group is based in Sheffield and makes over 1,000 different hand and power tools for the engineering, woodworking and electronic industries, and DIY market.

Mr Michael Mallett, chairman, said markets were not becoming any easier but sales rose to £19.1m (£16.34m) and profit to £1.8m (£1.5m).

Some 13 per cent of the sales growth was organic. Good progress was made in the UK industrial and retail sectors of the hand and power tool market.

Overseas sales moved up only to £5.53m (£5.35m) as they continued to be inhibited by unfavourable exchange rates, the chairman said.

Earnings for the period worked through at 4.38p (3.75p) and the interim dividend is raised to 1p (0.66p) to achieve a better balance with the final – 2.34p last time.

Record has acquired Burgess Power Tools and Powerline, thereby adding woodcutting bandsaw machines and soldering and engraving equipment to the portfolio.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- ASW, Booker, Bowater, Cons. Venture Trust, Cooper (Alan), Durham (DG), Emess, Halls Homes & Gardens, Lilleshall, Linread, Pacific Assets Trust, Porvair, Pelon, Ramco Oil, Technology Project Services, Unidare, Wilkes (James).

Finals- Cantors, Johannesburg Cons.

FUTURE DATES

Interims-

Abbeycrest	Sep. 8
Baird (William)	Sep. 14
Conder	Sep. 6
Cons. Venture	Sep. 4
Corton Beach	Sep. 6
Delta	Sep. 11
Durham (DG)	Sep. 4
Erith	Sep. 13
Portals	Sep. 7
RTZ	Sep. 14
Savoy Hotel	Sep. 14
Serco	Sep. 14
TT Group	Sep. 12
Telemetrix	Sep. 5

Finals-

Peters (Michael)	Sep. 5
Yorkshire TV	Dec. 15

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Pacific Property Investment Trust (Section: Investment Trusts).

SmithKline Beecham Floating Rate Uns. Ln. stk 1990/92 (Industrials).

FINANCIAL TIMES STOCK INDICES

	Sep 1	Aug 31	Aug 30	Aug 29	Aug 25	Aug 24	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.52	86.81	87.03	87.01	87.14	87.12	89.29	83.75	127.4	49.18
Fixed Interest	97.78	97.88	98.18	98.20	98.28	98.40	99.59	95.21	105.4	50.53
Ordinary	1992.7	1977.6	1970.9	1972.7	1981.0	1977.9	1992.7	1447.8	1992.7	49.4
Gold Mines	198.8	198.6	195.8	194.9	197.0	199.9	206.0	154.7	734.7	43.5
FT-Act All Share	1216.78	1207.45	1203.97	1204.89	1212.11	1210.39	1216.78	921.22	1238.57	61.92
FT-SE 100	2407.5	2387.9	2381.3	2380.8	2397.4	2393.1	2407.5	1782.8	2443.4	986.9

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	57.01	57.59xd	61.27	4.47	40000
Gilts & Fixed Int	6	110.00	110.00	116.40	8.56	40001
High Inc Equity	6	141.00	143.8xd	153.0	4.15	40002
Worldwide Bond	6	202.8	202.8xd	214.8	4.93	40003
Capital Growth						
American Growth	6	204.1	206.4	219.6	0.87	40004
Asian Pacific	6	109.1	111.2	118.40	1.10	40005
Assets & Earnings	6	166.2	169.8	180.7	2.05	40006
Capital Reserve Acc	0	97.01	87.01	87.11	4.59	40007
Comdty & Energy	6	113.70	117.0	124.5	1.53	40008
1992 Enterprise	6	60.73	61.91xd	65.87	1.94	46597
European Capital	6	93.18	93.95	99.950	0.75	40009
General	6	187.80	187.8xd	200.9	2.49	40010
International	6	53.97	54.78	58.28	0.86	–
Japan	6	114.3	116.0	123.5	0.00	40011
Mastertrust	6	91.74	91.74	98.12	1.73	40012
UK Growth Acc	6	207.8	217.0	230.9	1.21	40013
UK Growth Dist	6	138.6	144.7	154.0	1.82	40014
US Emerging Cos	6	55.41	55.41	59.27	0.00	40015
Income & Growth	6	321.90	328.10	349.1	2.94	40016
Ethical	6	51.09	52.32	55.67	1.80	40017
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580						
Amer Inc & Growth	5	34.78	34.78	37.13	2.84	40019
European	5¼	71.29	71.43	76.25	0.00	40024
European Income	5¼	67.00	67.00xd	71.53	2.72	41377
Exempt	1	851.9	851.9	889.1	1.85	41379
Extra Income	5	47.09	47.09	50.27	4.27	40021

GUIDE TO UNIT TRUST PRICING

FT UNIT TRUST INFORMATION SERVICE

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Unit Name	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-line
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD						01-405 8331
Capital & Equity	5	64.43	67.38	71.68	6.62	41599
European	5	76.77	77.11	82.05	0.09	40300
Far Eastern	5	64.94	66.81	71.07	0.61	40304
Growth Inc	5	89.49	92.89xd	98.81	1.38	41600
Growth Acc	5	89.49	92.89xd	98.81	1.38	—
Income Inc	5	85.34	87.60xd	93.19	4.56	41601
Income Acc	5	85.44	87.70xd	93.30	4.56	—
Property Share	5	55.80	55.80	59.48	0.99	41602
Smaller Co's	5	59.43	59.77	63.76	1.50	41603
Nth American	5	70.64	70.64	75.55	1.49	41139
International	5	51.01	51.01	54.55	1.36	41218
Wright Seligman Fund Mngrs Ltd (1700)F						
11 Blomfield St, London EC2M 7AY						01-588 0592
Intl Growth	5	116.34	116.34	121.34	3.86	41604
UK Growth	5	95.00	95.00	100.00	5.00	—
UK Income	5	95.00	95.00	100.00	4.50	—
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield						0484 602250
Yorkshire General	5¼	65.07	67.43	71.79	2.53	41605
YUTM UK Eqty Inc Tr	5¼	61.37	63.53xd	67.59	8.70	41606
YUTM Intl Gwth Tst	5¼	54.17	54.17	57.86	0.77	41135

OTHER UK UNIT TRUSTS

Unit Name	Bid Price	Offer Price	Yield Gr's	City-line
Baillie Gifford & Co Ltd				
Int'l Expt June 7	485.3	503.8	—	40105
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Inv Fund July 31	538.95		4.55	40251
Fxd Int Sec July 31	142.05		10.07	40252
Deposit July 31	100.00		13.25	40253
Charinco/Charishare‡‡ (1000)F				
33 King William Street, EC4R 9AS				01-280 2800
C'inco Inc Aug 30	160.6	169.5xd	10.06	40254
C'inco Acc Aug 30	696.1	714.3xd	10.06	40255
C'share Inc Aug 30	162.4	168.5xd	3.98	40256
C'share Acc Aug 30	179.7	186.4xd	3.98	40257
Charities Official Invest. Fund‡‡				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Income July 31	536.04		4.79	40258
Accum July 31	1714.96			40259
Edinburgh Fund Mngrs PLC				

Fund	Bid Price	Offer Price	Yield Gross	City-line
Albany Life Assurance Co Ltd—Contd.				
Sunrise Metro	136.9	144.1	—	—
UK Metro	124.5	131.1	—	46598
N Am Pn Fd Acc(z)	280.3	295.0	—	41713
Pac.Basin Fd Acc(z)	196.3	206.5	—	41714
Property(z)	607.4	639.4	—	41715
Mitple Inv Pens Acc(z)	1552.7	1634.3	—	41717
Broker Funds				
Prof. Pen. Fd	101.8	107.1	—	41718
YRA Strategy	126.3	132.9	—	41719
YRA Performance	108.5	114.2	—	—
Leighton Dollar (SE)	144.3	151.9	—	41720
Allied Dunbar Assurance Plc				
Allied Dunbar Ctr, Swindon SN1 1EL				0793 514514
Fixed Int. Dep. Acc.	265.3	279.3	—	41723
Equity Acc.	915.8	964.1	—	41724
Property Acc.	511.4	538.4	—	41725
Far East Acc.	216.4	227.8	—	41726
European Acc.	24.9	26.3	—	41727
Managed Acc.	715.7	753.4	—	41728
Managed Cap.	404.8	426.2	—	41729
O'seas Earnings Acc.	610.4	642.6	—	41730
Gilt Edged Acc.	321.0	337.9	—	41731
American Equity Acc.	497.8	524.0	—	41732
American Man. Acc.	229.6	241.7	—	41733
American Prop Acc.	151.9	159.9	—	41734
Pen.F.I.Dep.Cap.	292.9	308.4	—	41735
Pen.F.I.Dep.Acc.	505.6	532.3	—	41736
Pen. Prop. Cap.	599.5	631.1	—	41737
Pen. Prop. Acc.	1142.7	1202.9	—	41738
Pen. Man. Cap.	882.8	929.3	—	41739
Pen. Man. Acc.	1682.1	1770.7	—	41740
Pen.Gilt Edg. Cap.	320.4	337.3	—	41741
Pen. Gilt Edg. Acc.	499.4	525.7	—	41742
Pen. Eq. Cap.	1464.1	1541.2	—	41743
Pen. Eq. Acc.	2114.4	2225.7	—	41744
Pen. Am. Eq Cap.	169.4	178.4	—	41745
Pen. Am. Eq Acc.	206.2	217.1	—	41746
Pen. Far East Cap.	258.4	272.1	—	41747
Pen. Far East Acc.	314.6	331.2	—	41748
Pen. Euro Cap.	29.8	31.4	—	41749
Pen. Euro. Acc.	32.6	34.4	—	41750
Pen. B.S. Acc.	555.8	585.6	—	41751
Pen. B.S. Cap.	331.0	347.6	—	41752
Pen. D.A.F. Acc.	388.6	388.6	—	41753
Pen. D.A.F. Cap.	259.8	259.8	—	41754
Pen. Mortgage Cap.	149.0	156.9	—	41755
Pen. Mortgage Acc.	181.4	191.0	—	41756
Swing Funds				
Pen Equ Cap.	30.8	32.5	—	46176
Pen Equ Acc.	32.3	34.1	—	46177

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

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Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Property Equity & Life Ass. Co

Property Growth Assur Co Ltd

Providence Capitol Life Assc. Co. Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan & General Assurance Soc

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

Noble Lowndes & Partners Ltd

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (**)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
500	Treas. 3pc 1992	85	9.20	5.5	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	102	11.05	19.7	25Feb 25Aug	1265
1,757	Exch 13½pc 1992	106½	10.95	31.8	22Mar 22Sep	1266
950	Treas 8¼pc 1993	92½	10.82	12.7	18Aug 18Feb	–
1,850	Treas 10pc 1993##	97	10.66	9.3	15Oct 15Apr	1279
1,100	Treas 12½pc 1993##	105	10.68	27.6	14Jan 14Jul	1296
600	Funding 6pc 1993##	87¼	9.87	9.8	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993##	110	10.60	17.4	23May 23Nov	1304
1,050	Treas. 8½pc 1994	92	10.66	27.6	3Aug 3Feb	–
600	Treas 14½pc 1994##	114	10.46	26.7	1Sep 1Mar	1307
1,100	Exch 13½pc 1994	110	10.64	21.3	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994##	98	10.47	3.5	9Dec 9Jun	1284
1,550	Exch. 12½pc 1994	106	10.62	17.7	22Feb 22Aug	1263

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,600	Treas 9pc 1994##	94	10.41	10.4	17May 17Nov	1345
2,350	Treas 12pc 1995	105	10.59	19.6	25Jul 25Jan	1294
229	Exch 3pc Gas 90–95	76	8.41	28.3	1Nov 1May	1271
2,100	Exch. 10¼pc 1995	98¾	10.49	14.6	21Jan 21Jul	1254
1,000	Treas 12¾pc 1995##	110½	10.39	10.4	15May 15Nov	1298
900	Treas. 14pc '96	115	10.53	15.6	22Jul 22Jan	1305
750	Treas. 9pc 1992–96##	94	10.14	9.8	15Sep 15Mar	1344
1,350	Treas 15¼pc 1996##	122	10.43	28.3	3Nov 3May	1309
800	Exch 13¼pc 1996##	113	10.41	10.4	15Nov 15May	1268
1,109	Conversion 10pc 1996	98	10.32	10.4	15May 15Nov	1240
1,500	Treas 13¼pc 1997##	114½	10.37	15.6	22Jul 22Jan	1302
3,100	Exch 10½pc 1997	100¾	10.31	17.7	21Aug 21Feb	1253
3,750	Treas 8¾pc 1997##	92	10.13	24.8	1Mar 1Sep	1341
1,000	Exch 15pc 1997	124	10.52	21.3	27Apr 27Oct	1269
2,850	Exch. 9¾pc 1998	97	10.20	12.6	19Jul 19Jan	1273
1,000	Treas 6¾pc 1995–98##	82	9.80	28.3	1Nov 1May	1331
1,100	Treas. 15½pc '98##	129¾	10.37	24.8	30Mar 30Sep	1308
2,500	Exch. 12pc 1998	109¾	10.30	13.4	20May 20Nov	1259
1,250	Treas 9½pc 1999##	97¼	9.94	8.6	15Jul 15Jan	1347
2,900	Exch. 12¼pc 1999	111¾	10.28	21.8	26Sep 26Mar	1264
1,252	Treas. 10½pc 1999	101¾	10.18	12.4	19Nov 19May	1288
1,548	Conversion 10¼pc 1999	100	10.14	17.4	22May 22Nov	1242
1,200	Treas. 8½pc Ln 2000##	90	9.89	21.6	28Jan 28Jul	1338
1,554	Conversion 9pc 2000##	94	9.92	28.7	3Sep 3Mar	1244
1,817	Treas. 13pc 2000	117	10.27	27.6	14Jan 14Jul	1299
1,050	Treas 10pc 2001	99	9.99	20.7	26Aug 26Feb	1280
1,250	Treas. 14pc '98–01	119¾	10.48	17.4	22Nov 22May	1306
802	Conversion 9¾pc 2001	98	9.94	4.7	10Feb 10Aug	1248
1,600	Exch. 12pc '99–02	109	10.34	15.6	22Jul 22Jan	1261
716	Conversion 10pc 2002	100¼	9.87	6.3	11Oct 11Apr	1241
1,450	Treas 9¾pc 2002	99¼	9.84	21.7	27Feb 27Aug	1349
1,300	Exch. 9pc 2002	94	9.78	12.4	19May 19Nov	1272
1,800	Treas. 13¾pc 2000–03	122	10.32	19.6	25Jan 25Jul	1303
1,000	Treas 10pc 2003	101¾	9.73	2.8	8Mar 8Sep	1281
1,900	Treas. 11½pc 2001–04	109¼	10.13	14.8	19Sep 19Mar	1290
900	Treas. 10pc 2004	102	9.68	11.4	18Nov 18May	1282
443	Funding 3½pc '99–04	57	8.60	29.6	14Jan 14Jul	1274

BRITISH FUNDS—Contd

Over Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,362	Conversion 9½pc 2004	98	9.61	20.3	25Apr 25Oct	1246
1,881	Conversion 9½pc 2005	99	9.59	13.3	18Oct 18Apr	1247
1,050	Exch. 10½pc 2005	107	9.57	14.8	20Mar 20Sep	1251
2,200	Treas 12½pc 2003–05	120	9.75	14.4	21May 21Nov	1295
1,800	Treas. 8pc 2002–06##	87¼	9.48	1.9	5Apr 5Oct	1334
702	Conversion 9¾pc 2006	101	9.49	10.4	15May 15Nov	1249
3,150	Treas. 11¾pc 2003–07	114½	9.75	15.6	22Jul 22Jan	1293
1,446	Treas 8½pc 2007 ##	92½	9.34	9.6	16Jan 16Jul	1339
1,250	Treas. 13½pc '04–08	129	9.68	21.8	26Sep 26Mar	1301
1,800	Treas. 9pc 2008 ##	97	9.29	7.3	13Apr 13Oct	1343
1,000	Treas 8pc 2009	88	9.24	21.8	25Mar 25Sep	1336
369	Conv 9pc Ln 2011 ##	97	9.18	29.6	12Jan 12Jul	1245
1,000	Treas. 5½pc 2008–12##	65¼	9.06	4.8	10Mar 10Sep	1330
700	Treas. 7¾pc 2012–15##	85¼	9.17	19.6	26Jul 26Jan	1332
1,000	Exch. 12pc '13–'17	126	9.21	8.5	12Jun 12Dec	1260

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	42	–	26.6	1Feb 1Aug	1239
1,909	War Loan 3½pc##	38¼	–	25.4	1Jun 1Dec	1352
140	Conv. 3½pc '61 Aft	65	–	25.8	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft	34	–	1.9	5Apr 5Oct	1324
276	Consols 2½pc	27	–	1.9	5Ja Ap Jul O	1238
475	Treas. 2½pc	26	–	25.8	1Apr 1Oct	1315

Index-Linked

Amount £m	Stock (b)	Price £	Red. Yld. **	Last xd	Interest Due	City-line
650	Tr. 2pc '92##(97.8)	112	2.95	17.8	23Mar 23Sep	1312
400	Do. 2 '94 (102.9)	104¼	2.97	10.4	16Nov 16May	–
1,000	Do. 2pc '96(67.9)	153	3.12	10.8	16Mar 16Sep	1313
900	Do 2½pc '01(78.3)	129¾	3.47	18.8	24Mar 24Sep	1316
800	Do. 2½pc '03(78.8)	126	3.52	13.4	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	130¼	3.53	12.6	19Jan 19Jul	1314
950	Do. 2½pc '09(78.8)	121¾	3.53	13.4	20Nov 20May	1318
1,350	Do. 2½pc '11(74.6)	127	3.59	17.7	23Feb 23Aug	1319
1,100	Do. 2½pc '13(89.2)	105¼	3.50	10.7	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	114	3.47	19.6	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83.0)	112	3.42	10.3	16Oct 16Apr	1322
900	Do. 2½pc '24##(97.7)	94⅝	3.37	12.6	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for December 1988:110.3 and for July 1989:115.5

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼Ln 2010	104	10.53	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	100	10.15	28.3	24Mar 24Sep	–
100	Australia 13½pc 2010	124	10.54	23.12	28Jan 28Jul	–
100	Do. 11¾pcLn2015	107	10.49	22.3	26Apr 26Oct	–
75	Euro Inv Bk 11pc Ln 2002	104	10.39	23.2	23Mar 23Sep	–
100	Do. 10¾pc2004	100¼	10.35	24.10	Apr Nov	–
75	Int-Am Dev Bk 12½pc 2003	113	10.55	7.12	8Jan 8Jul	–
175	Do. 9¾pcLn 2015	95	10.22	13.10	15May 15Nov	–
75	Mlysia 10¾ pcLn 2009	95	11.39	23.12	31 Jan 31 Jul	–
50	Utd. Mexican States 16½pc 2008	115	14.20	24.1	1Mar 1Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
32	Birmingham 13½pc 1989	99½	11.30	20.4	20May 20Nov	1838
45	Do. 11½pc 2012	106½	10.70	14.4	15May 15Nov	1837
40	GLC 6¾pc 1990–92	89½	11.70	17.7	15Feb 15Aug	2647
40	Leeds 13½pc 2006	121½	10.72	10.3	1Apr 1Oct	3146
5	Liverpool 3½pc Irred	30	–	1.9	1Ja Apr Jn Oc	3169
25	LCC 6¾pc '88–90	95½	10.90	14.7	10Jan 10Jul	3198
26	Do. 3pc '20 Aft	28	–	1.8	1Mar Jn S D	3197
7	Manchester 11½pc 2007	106½	10.70	31.3	25Apr 25Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988–92	89	11.70	1.12	1Jan 1Jul	–
–	S Rhod 2½pc Non-Assd.	206	–	–	1Apr 1Oct	–
4	Do. 4½pc 87–92 Assd.	84½	9.33	14.7	7Feb 7Aug	–

LOANS

Building Societies

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
20	Nwide Anglia 12⅞pc 18.9.89	99	13.74	21.8	12Mar 18Sep	–
20	Do. 12pc 2.10.89	99	13.23	27.2	26Mar 2Oct	–
20	Do. 11pc 6.11.89	99	14.13	31.3	30Apr 6Nov	–
20	Do. 12pc 4.12.89	99	13.94	28.4	26May 4Dec	–
20	Do. 12pc 2.1.90	99	13.95	30.5	2Jan 28Jun	–
20	Do. 12pc 29.1.90	99	13.90	23.6	29Jan 23Jly	–
–	Do. 12pc 26.2.90	99	13.95	21.7	26Feb 20Aug	–
–	Do. 12⅞pc 19.3.90	99	13.90	–	19Mr 13Sep	–
20	Do. 13⅛pc 23.4.90	99⅝	13.83	–	23Apr 17Oct	–
20	Do. 13pc 14.5.90	99¾	13.77		14May 8Nov	–
–	Do. 13pc 4/6/90	99	13.74	–	4Jun 30Nov	–
–	Do. 14pc 2.7.90	100	13.62	–	2Jly 26Dec	–
–	Do. 13⅝pc 23.7.90	99	13.61			–
60	Do. 3½pcIL Ln 2021	106	4.40	22.6	30Jan 31Jul	3465

Public Board and Ind.

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
25	Met. Wtr. 3pc 'B'	46	10.62	1.8	1Mar 1Sep	3361

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

Money Market Bank Accounts

Money Market Trust Funds

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AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
18 162.3	Ford Motor $1	34¼	$3.00	5.5	28 7	Mar Jun S D	2615
33,752.5	Gen. Elect. 63c	36⅞	$1.64	2.9	7 6	Ja Ap Je Oc	2675
—	General Host Corp $1	559p	30c	3.4	12 12	—	—
3,325.8	Gillette $1	28½	96c	2.1	27 1	Mar Jun S D	2695
269.9	Gt. American Bank 3½ $1	923p	40c	4.6	28 10	Fb My Au Nv	—
908.1	Greyhound $1½	23	$1.32	3.6	30 5	Ja Ap Jy Oc	2778
759.2	Hasbro Inc 50c	14⅛	16c	0.7	1 8	Ja No Ap My	—
2,595.5	Honeywell $1½	56	$2.10	2.3	22 8	Mar Jun S D	2919
2,595.8	Houston Inds 3	21½	$2.96	8.6	10 11	Mr Jn Se De	—
44,704.3	IBM Corpn $1¼	74	$4.84	4.1	5 5	Mar Jun S D	2986
1.17	Image Storage Sys 1c	55p	—	—	—	—	2961
1,673.3	Ingersoll-Rand $2	31¼	$1.20	2.4	16.5	Mar Jun S D	2979
2,140.4	Lockheed Crpn $1	32⅝	$1.80	3.5	15 2	Mar Jun S D	—
353.7	Lone Star Inds $1	21	$1.90	5.6	30 8	May Se N Mar	3216
818.3	Louisiana Land 15c	26	$1.00	2.4	29.8	Mar Jun S D	3222
792.6	Lowe's 50c	20	48c	1.5	11.7	Jan Ap Jly Oc	—
1,350.4	Manuf. Hanover $1	25⅝	$3.28	8.1	26 6	Jan Ap Jly Oc	3279
2,330.6	Merrill Lynch $1	22	$1.00	2.9	31 10	Feb My Au N	3351
608.2	Moler Inc.	2397p	3.2c	—	—	—	3397
4,762.3	Morgan (JP) $2½	26¾	$1.60	4.0	21 12	Jan Ap Jly O	3413
26,001.3	Morris (Philip)	104	$4.50	2.7	—	—	5161
10,875.3	NYNEX $1	50¼	$4.36	5.4	27 6	F May Au N	—
3.24	N'wide Legal Serv 1	24p	—	—	—	—	5121
412.7	PHH Corp	24½	$1.12	2.9	4.4	Ja Ap Jy Oct	—
—	Pacific Agr 1	160p	—	—	—	—	—
1,826.3	Pacificorp $3¼	26¾	$2.76	6.4	18 7	Feb My Ag Nv	—
12,702.3	Pacific Telesis 10c	29	$1.68	4.0	12 85	Fe My Au No	—
786.3	Pall Corp 25c	21¼	48c	1.4	24 1	Fe My Au No	—
2,231.3	Pennzoil 83 1/3c	54⅝	$3.00	3.5	29 8	Mar Jun S D	3630
3,190.9	Quaker Oats $5	39	$1.20	1.9	20 6	Jly Oc Jan Apr	3738
765.6	Rep NY Corpn $5	30	$1.28	2.6	12 6	Jan Apr Jly O	3814
4,401.3	Rockwell Intl $1	15⅛	78c	3.3	9.8	Mr Jn Se De	3847
8,325.3	Sears, Roebuck 75c	29	$2.00	—	—	—	5191
10,326.9	Southwestern Bell $1	34	$2.60	4.8	5.7	Fb My Ag No	—
2,601.5	Sun Co. Inc. $1	24	$1.80	4.7	7.8	Mr Jn Se De	4135
1,921.1	TRW Inc. 62½c	30¾	$1.72	3.5	8.8	Ma Jn Se De	4318
1,248.8	TW Services $5	24⅛	10c	0.3	11 11	Fe My Au No	—
5,774.3	Tenneco $5	39	$3.04	4.9	8 8	Mr Jn Se Dc	4194
7,862.3	Texaco $6.25	32⅝	♦$3.00	5.9	30 8	Mr Je Se De	4200
2,562.5	Texas Instr $1	25	72c	1.8	27.6	JAJO	5033
8,331.0	Time Inc $1	87⅝	$1.00	0.7	22 2	Mr Je Se De	4234
639.6	TRINOVA Corp	15	56.8c	2.3	10.8	Mc Je Se De	4309
6,843.6	USX $1	22	$1.40	3.9	2.5	Mr Je Se De	4380
236.9	Unilab	255p	—	—	—	—	—
4,672.7	Utd Technologies	35⅝	$1.60	2.8	23.5	Mr Jn Sp Oc	4381
—	Utilitech Inc	155p	—	—	—	—	—
9,116.9	US West	45½	$3.76	5.3	14.4	Fb My Ag No	—
8,472.1	Waste Management $1	37	48c	0.8	16.6	Ap Jly Oc Jan	4439
1,386.6	Whirlpool $1	20	$1.10	3.5	28.2	Mr Je Se De	—
2,417.2	Whitman Corp	21	$1.02	3.0	6 6	Ap Jy Oc Ja	2951
2,881.6	Woolworth $3½	43	$1.88	2.7	26.1	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
—	ABM Gold Corp	163p	—	—	—	—	—
—	Abbot Energy Corp.	25p	—	—	—	—	—
892.8	Amer Barrick Res.	15½	—	—	—	—	—
—	Armeno	14p	—	—	—	—	—
	For Asiamerica see Asiamerica Eq. (Americans)						
—	Augmitto Expln.	16p	—	—	—	—	—
1,897.3	Bk Montreal	18¼	$2.12	6.3	2.8	Fb My Aq Nv	—
1,751.8	Bk Nova Scot.	996p	92c	5.0	30.6	Ja Ap Ju Oc	—
—	BC Gas $1	786p	60c	4.1	30.12	Fe My Au No	—
6,650.6	BCE	22¾	$2.44	5.8	12.6	Ap Jy Oc Ja	—
300.2	Bow Valley	725p	♦40c	3.0	15.12	May Nov.	—

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

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PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING – Contd

PROPERTY

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES – Contd

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND – Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES – Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
12.0	Gopeng Bertad M$0.50	75	†Q10c	3.0	31.7	Sep	2726
317.7	Malaysia Mng 10c	76	Q5c	1.5	17.4	Dec Aug	3272
16.1	Petaling SM1	168	Q87c	12.4	5.6	Dec July	[illegible]
4.27	Sungei Besi SM1	125	Q70c	12.7	17.7	August	4140
1.34	Tanjong 15p	90	–	–	6'81	–	–

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✻ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ¥ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

Stocks previously listed under Shipping are now included in the Transport sector, as are others heretofore dispersed under several other headings.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ... γ	96	......	Arnotts ... γ	420	–2
Craig & Rose £1 .. γ	830	......	Carroll (P.J.) ... γ	160	......
Finlay Pkg. 5p .... γ	66	–2	Hall (R. & H.) ... γ	175	......
Holt (Jos) 25p ..... γ	1340	......	Helton Hldgs ... γ	92	–1
			Irish Ropes ... γ	212	–3
			United Drug ... γ	148	......

IRISH

Cap. 8½% Ln. 1991 γ	£97¼	......
9pc Cap Ln. 1996 γ	£99	......
Fin. 13% 97/02 γ	£119	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons ... γ	38
Amstrad ... γ	11
BAT ... γ	80
BOC Grp. ... γ	42
BSR ... γ	6½
BTR ... γ	32
Barclays ... γ	42
Blue Circle ... γ	24
Boots ... γ	25
Bowaters ... γ	44
Brit Aerospace ... γ	52
British Steel ... γ	7½
Brit Telecom ... γ	21
Burton Ord ... γ	18
Cadburys ... γ	46
Charter Cons ... γ	48
Comm Union ... γ	32
Courtaulds ... γ	30
FKI ... γ	14
FNFC ... γ	22
Gen Accident ... γ	65
GEC ... γ	20
Glaxo ... γ	110
Grand Met. ... γ	48
GUS 'A' ... γ	90
Guardian ... γ	18
GKN ... γ	34
Hanson ... γ	15
Hawker Sidd ... γ	60
ICI ... γ	100
Jaguar ... γ	28
Ladbroke ... γ	28
Legal & Gen. ... γ	26
Lex Service ... γ	33
Lloyds Bank ... γ	29
Lucas Inds ... γ	58
Marks & Spencer ... γ	15
Midland Bk ... γ	33
Morgan Grenfell ... γ	24
Nat West Bk ... γ	25
P & O Dfd ... γ	55
Plessey ... γ	22
Polly Peck ... γ	26
Racal Elect. ... γ	20
RHM ... γ	42
Rank Org Ord ... γ	80
Reed Intnl ... γ	34
STC ... γ	32
Sears ... γ	10
Smithkline Bchm. A ... γ	50
TI ... γ	38
TSB ... γ	10
Tesco ... γ	14
Thorn EMI ... γ	58
Trust Houses ... γ	24
T&N ... γ	18
Unilever ... γ	46
Vickers ... γ	16
Wellcome ... γ	42

Property

Brit Land ... γ	32
Land Securities ... γ	52
MEPC ... γ	50
Randsworth ... γ	28

Oils

Brit Petroleum ... γ	21
Burmah Oil ... γ	50
Calor ... γ	35
Charterhall ... γ	2½
Premier ... γ	9
Shell ... γ	32
Ultramar ... γ	26

Mines

Cons Gold ... γ	150
Lonrho ... γ	30
RTZ ... γ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Sterling underpinned by rate squeeze

THE BANK of England has changed its intervention tactics on the London money market recently, with implications for sterling and foreign exchange policy.

The central bank has been much more determined to keep the short end of the money market tight, to underpin the 14 per cent level of bank base rates and to help shore up the pound, without the need for too much direct intervention on the currency market.

The authorities appear willing to make their presence known on the foreign exchanges, if this gives the desired signal to speculators against the pound, but obviously would prefer not to use up large amounts of reserves in this way.

Today's figures on official reserves are expected to show that the Bank of England spent money supporting sterling last month, but forecasts of the drop in reserves range from $50m to $500m. A survey by MMS International puts the median estimate at $250m, against a rise of $67m in July.

The pound has been reasonably steady against the dollar and D-Mark for the last month or so, but has required some support. High short term rates make speculation against the currency more expensive, while sterling is also likely to remain reasonably attractive on the assumption that base rates will not be cut until some time next year. This gives the pound a strong interest rate cushion, even though some of the padding may be removed later this year by a rise in German interest rates.

The Bank of England's last quarterly bulletin indicated that UK interest rates are likely to stay high for longer than might have been hoped at one time, and the central bank has backed up this message through its operations in the money market.

Overnight money had drifted down to around 13¾ per cent, pulling the short end of the rate structure down. Over the last few weeks the authorities have tightened the day to day credit position, lifting the overnight rate back to around 14 per cent to underpin base rates of the same level.

This has been achieved by keeping the market short of day-to-day funds for most of the day and at times forcing borrowers to pay above 14 per cent for late assistance. This in turn has encouraged banks and discount houses to bid for overnight money in the market, thus supporting the rate.

The tighter conditions were also reflected last week when a discount house sold bills to the Bank of England at above the established official dealing rate. This was purely a technical operation, favoured by the house involved, and did not indicate pressure from the Bank of England to force interest rates higher. But at the same time it helped underline the authorities message.

The approach of the Conservative Party conference next month has led to suggestions of a cut in base rates, particularly since building societies margins are being squeezed, meaning a likely rise in mortgage rates if base rates are not cut. It would be a major surprise to the City however if the Government were to give in to this pressure.

The wider picture of world interest rates does not encourage thoughts of lower rates. Friday's US employment figures were much stronger than expected and do not point to an easing of the Federal Reserve's monetary stance. The fear of recession has faded and the Fed appears likely to keep interest rates steady, while the strong German economy may prompt a general rise in European rates, that would not help sterling if UK rates are moving in the opposite direction.

Colin Millham

CURRENCY MOVEMENTS

Sep.1	Bank of England Index	Morgan** Guaranty Changes %
Sterling	91.4	-19.6
U.S Dollar	72.0	-6.4
Canadian Dollar	105.4	+1.9
Austrian Schilling	106.2	+9.4
Belgian Franc	105.7	-6.1
Danish Krone	103.0	-1.7
Deutsche Mark	112.1	+19.9
Swiss Franc	106.6	+15.9
Guilder	109.9	+12.9
French Franc	99.3	-15.4
Lira	99.6	-18.6
Yen	137.5	+67.1

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Sep.1.

OTHER CURRENCIES

Sep.1	£	$
Argentina	1016.80 - 1024.95	650.00 - 655.00
Australia	2.0525 - 2.0550	1.3120 - 1.3130
Brazil	4.3610 - 4.3830	2.7880 - 2.8020
Finland	6.9500 - 6.9700	4.4500 - 4.4520
Greece	263.25 - 267.75	168.30 - 171.00
Hong Kong	12.2015 - 12.2140	7.8085 - 7.8105
Iran	116.30*	73.20*
Korea(Sth)	1045.90 - 1054.35	666.80 - 672.20
Kuwait	0.46750 - 0.46940	0.29940 - 0.29990
Luxembourg	64.40 - 64.50	41.35 - 41.45
Malaysia	4.2035 - 4.2200	2.6930 - 2.6960
Mexico	3998.90 - 4010.85	2558.00 - 2564.00
N. Zealand	2.6255 - 2.6240	1.6765 - 1.6795
Saudi Ar.	5.8665 - 5.8720	3.7500 - 3.7510
Singapore	3.0770 - 3.0840	1.9680 - 1.9700
S. Af (Cm)	4.3370 - 4.3495	2.7780 - 2.7810
S. Af (Fn)	6.4450 - 6.5810	4.1235 - 4.2105
Taiwan	41.15 - 41.75	25.75 - 25.85
U.A.E.	5.7450 - 5.7500	3.5720 - 3.5730

*Selling rate

MONEY MARKETS

Doubts surround German rates

RUMOURS CIRCULATED around the middle of last week that the West German Bundesbank was to hold an emergency council meeting on Thursday, and that this would produce a rise in the 7 per cent Lombard rate.

This was a reaction to Tuesday's news that the central bank had raised the rate at which it sells three-day Treasury bills to the money market to 6 per cent from 5.5 per cent. The three-day bill rate provides an effective base for call money, because banks can always offload surplus liquidity by buying short dated bills at that level.

UK clearing bank base lending rate 14 per cent from May 24

There was no meeting on Thursday and on Friday Mr Karl Otto Pöhl, Bundesbank president, told journalists in Frankfurt that the bill rate has practically no significance as a signal on rates and market reaction had been exaggerated. The next regular council meeting is on Thursday and after Mr Pöhl's comments dealers do not now expect this to result in a change in rates.

Nevertheless higher German rates are not out of the question before the end of the year. Economic growth is likely to be around 4 per cent this year, and although Mr Pöhl hinted that this strong export led performance does not necessarily mean higher rates, there are other reasons why the central bank may wish to tighten monetary policy.

These include the forthcoming round of pay negotiations, at a time when West German industry has enjoyed a particularly profitable period and may be tempted to avoid the possible threat of disruption by giving in to high pay claims.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sep.1) 3 months US dollars		6 months US Dollars	
bid 8¾	offer 9	bid 8¾	offer 9

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

4pm (Sep 1)

Prime rate	10½	One month	7.76	Three year	8.27
Broker loan rate	10	Two month	7.87	Four year	8.26
Fed. funds	9	Three month	8.11	Five year	8.17
Fed. funds at intervention	-	Six month	8.19	Seven year	8.20
		One year	8.22	10-year	8.17
		Two year	8.32	30-year	8.12

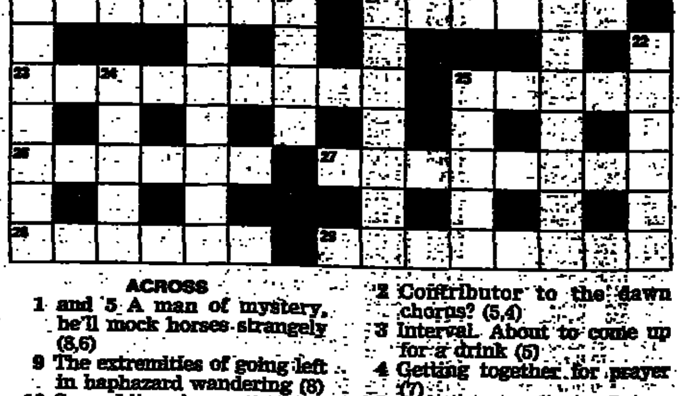
Sep.1	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	6.80-6.90	6.85-7.00	6.95-7.10	6.95-7.15	7.05-7.25	7.00
Paris	8¾-8⅞	8$\frac{13}{16}$-9$\frac{1}{16}$	9-9⅛	9$\frac{1}{16}$-9$\frac{3}{16}$	9$\frac{1}{16}$-9$\frac{3}{16}$	8.75
Zurich	6¾-6⅞	7⅛-7¼	-	7⅛-7¼	-	-
Amsterdam	7.25-7.37	7.30-7.40	-	7.33-7.43	-	-
Tokyo	5¼-5$\frac{5}{16}$	5½-5$\frac{9}{16}$	-	5$\frac{11}{16}$-5$\frac{13}{16}$	-	-
Milan	12¼-12⅜	12½-13	-	12½-13	-	-
Brussels	7.40	8$\frac{1}{16}$-8¼	-	8½-8⅝	-	-
Dublin	9½-9⅝	9¾-9⅞	10⅛-10¼	10⅜-10½	10⅝-10¾	-

LONDON MONEY RATES

Sep.1	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	14¼	14⅛	14	14	13$\frac{15}{16}$	13$\frac{13}{16}$
Interbank Bid	2	13⅞	13$\frac{13}{16}$	13$\frac{13}{16}$	13¾	13⅝
Sterling CDs	-	-	14	14	13⅞	13¾
Local Authority Deps.	13¾	13$\frac{15}{16}$	13$\frac{15}{16}$	13$\frac{15}{16}$	13$\frac{13}{16}$	13$\frac{11}{16}$
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	14	13$\frac{13}{16}$	13	13	-	-
Company Deposits	-	-	14$\frac{1}{16}$	14$\frac{1}{16}$	14$\frac{1}{16}$	13$\frac{15}{16}$
Finance House Deposits	-	-	14	14	14	13¾

CROSSWORD

No.7,028 Set by QUARK



ACROSS

1 and 5 A man of mystery, he'll mock horses strangely (8,6)
9 The extremities of going left in haphazard wandering (8)
10 Several lines in a pattern (6)
12 Important man – with corporation! (5)
13 Drink knocked back by salt? Give details (9)
14 Note the resting place here (6)
16 The bench takes in one in the north-west (7)
19 Tree put in order around court (7)
21 Horrified! Silver ash devastated by edge of forest (6)
23 Quark makes up these particles! (9)
25 Greek character? Fit out with civvies (5)
26 Take for granted the fool gets the bird in comeback (6)
27 Politician's speech? Could be meaningless (8)
28 Chain well above 8 (6)
29 Dejection shown when one's off-key? (8)

DOWN

1 Seed following Open? (8)
2 Contributor to the dawn chorus? (5,4)
3 Interval. About to come up for a drink (5)
4 Getting together for prayer (7)
6 Healer? He's apt, too, in manipulation (9)
7 Method, we hear, to get heavenly food (5)
8 The main flat base for measuring purposes (3,5)
11 Mad cricketers (4)
15 Circus performer could be a roaring success (4,5)
17 Only short time to request Church for group to do job (4,5)
18 Very French permit to intrude (8)
20 Tip and fall heavily (4)
21 Lively "hallo" about firm's drink (7)
22 In the event, debate cut short (6)
24 11 changes for English to beat (5)
25 Composition encountered about the book (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday September 16.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) Unavailable. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO

Closing prices September 1

[illegible]

MONTREAL

Closing prices September 1

[illegible]

Total Sales 8,171,494 shares.

INDICES

NEW YORK — DOW JONES

	Sep 1	Aug 31	Aug 30	Aug 29	1989 High	1989 Low	Since compilation High	Since compilation Low
◆Industrials	2752.09	2737.27	2728.15	2726.63	2752.09 (1/9)	2144.64 (3/1)	2752.09 (1/9/89)	41.22 (2/7/32)
Home Bonds	93.18	93.05	93.12	93.16	94.15 (2/8)	87.35 (23/3)	–	–
Transport	1526.32	1509.42	1529.52	1506.58	1529.52 (30/8)	959.95 (3/1)	1529.52 (30/8/89)	12.32 (8/7/32)
Utilities	218.62	217.30	217.05	217.74	221.64 (8/8)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

◆Day's High 2766.91 (2744.68) Low 2726.82 (2717.90)

STANDARD AND POOR'S	Sep 1	Aug 31	Aug 30	Aug 29	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite ‡	353.73	351.45	350.65	349.84	353.73 (1/9)	275.31 (3/1)	353.73 (1/9/89)	4.40 (1/6/32)
Industrials	405.27	402.85	401.92	401.06	405.27 (1/9)	318.66 (3/1)	405.27 (1/9/89)	3.62 (21/6/32)
Financial	33.49	33.26	33.19	33.16	33.59 (7/8)	24.30 (3/1)	33.59 (7/8/89)	8.64 (1/10/74)
NYSE Composite	196.37	195.27	194.92	194.47	196.37 (1/9)	154.98 (3/1)	196.37 (1/9/89)	4.46 (25/4/42)
Amex Mkt. Value	383.96	382.19	381.58	380.94	383.96 (1/9)	305.24 (3/1)	383.96 (1/9/89)	29.31 (9/12/72)
NASDAQ Composite	471.34	469.33	468.27	466.57	471.34 (1/9)	378.56 (3/1)	471.34 (1/9/89)	54.87 (31/10/72)

	Aug 25	Aug 18	Aug 11	year ago (approx.)
Dow Industrial Div. Yield	3.99	3.44	3.43	3.80
	Aug 30	Aug 23	Aug 16	year ago (approx.)
S & P Industrial div. yield	2.83	2.88	2.87	3.30
S & P Indl. P/E ratio	14.67	14.40	14.44	13.57

TRADING ACTIVITY † Volume Millions

	Sep 1	Aug 31	Aug 30
New York	133.300	143.420	174.350
Amex	12.587	13.069	14.545
OTC	113.463	117.756	121.701

NEW YORK	Sep 1	Aug 31	Aug 30
Issues Traded	1,935	1,967	1,957
Rises	891	780	795
Falls	481	655	646
Unchanged	563	532	516
New Highs	122	80	100
New Lows	11	12	11

CANADA

TORONTO	Sep 1	Aug 31	Aug 30	Aug 29	1989 High	1989 Low
Metals & Minerals	*3919.2*	*3911.5*	*3910.8*	*3885.3*	*3919.2 (1/9)*	*3207.5 (3/1)*
Composite	4014.6	4010.2	4009.1	3991.4	4019.7 (10/8)	3350.5 (6/1)
MONTREAL Portfolio	2053.80	2046.71	2048.74	2037.59	2053.80 (1/9)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Gen Motors	2,010,600	49⅞	+ ⅞	Exxon	1,493,300	44	+ ⅛
Niag Mohawk	1,945,700	12⅛	+ ⅛	Texas Utilities	1,470,300	32⅛	+ ⅛
Bristol Myers	1,696,100	50⅛	+ ⅜	Upjohn	1,446,700	40	+ ⅜
AMR Corp	1,604,500	89⅞	+ 1⅞	Union Carbide	1,367,500	30⅞	– ¼
Am T & T	1,524,500	40¾	+ ⅛	Reebok Intl	1,351,600	16½	+ ½

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

WORLD INDICES

	Sep. 1	Aug. 31	Aug. 30	Aug. 29	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1748.8	1763.2	1781.2	1781.8	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	846.8	858.2	871.0	875.1	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	424.39	429.52	438.04	430.89	438.04 (30/8)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6509.03	6490.81	6494.96	6511.07	6511.07 (29/8)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	335.20	334.99	334.61	337.61	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	762.6	771.1	772.3	771.8	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	526.4	523.0	520.8	520.8	526.4 (1/9)	417.9 (4/1)
Ind. Tendance (30/12/88)	123.4	125.1	123.3	123.4	125.1 (31/8)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	665.95	659.7	656.70	658.50	665.95 (1/9)	535.78 (27/2)
Commerzbank (1/12/53)	1995.7	1975.3	1966.1	1971.4	1995.7 (1/9)	1595.7 (27/2)
DAX (30/12/87)	1608.33	1597.85	1585.98	1597.24	1609.93 (10/8)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2508.91	2508.57	2505.40	2487.94	3309.64 (15/5)	2093.61 (5/6)
ITALY						
Banca Com. Ital. (1972)	734.12	734.84	730.73	731.43	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	34348.22	34431.20	34471.66	34687.6	35140.83 (21/8)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2602.51	2603.38	2607.07	2615.63	2659.08 (21/8)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	264.1	264.6	263.6	261.7	266.2 (17/8)	208.3 (3/1)
CBS All Shr (End 1983)	204.7	205.1	204.4	202.9	207.0 (17/8)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	673.51	679.36	677.47	672.16	679.36 (31/8)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1363.73	1356.01	1350.21	1342.54	1387.01 (21/8)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1555.0 ◆	1571.0	1606.0	1594.0	1685.0 (3/8)	1291.0 (15/2)
JSE Industrial (28/9/78)	2819.0 ◆	2828.0	2824.0	2820.0	2838.0 (25/8)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	322.46	320.18	320.73	322.51	322.51 (29/8)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4569.9	4582.3	4562.1	4570.5	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	817.0	816.4	810.7	821.7	825.8 (28/8)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	535.2	537.7	537.2	551.2 (3/8)	487.6 (13/6)

◆ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday September 1 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Keisei Railways	25.2m	2,840	+120	Yamazaki	7.2m	2,020	+150
Nippon Steel	15.3m	793	0	Sony	6.7m	8,850	+100
Toshiba	8.6m	1,250	-20	Kawasaki Steel	5.9m	831	-9
Yamato Trnsprt	7.2m	2,010	+10	Okamura	5.7m	1,800	+40
Asahi Optical	7.3m	1,190	+60	Morinaga	5.5m	1,010	+40

4pm prices September 1

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
34⅞	21¾	AAR	.44	1.3	22	53	u35	34⅝	34⅝	
10⅛	8⅝	ACM n	1.01	11.		115	9⅛	9⅛	9⅛	+⅛
11⅝	10¼	ACMIn	1.26a	11.		436	11⅝	11½	11½	−⅛
10⅛	9½	ACM M n	1.01	11.		110	9⅛	9⅛	9⅛	−⅛
11½	10	ACM Sc	1.26	11.		1011	11⅜	11¼	11⅜	
9⅝	8⅝	ACMSp	1.01	11.		x483	9⅛	9⅛	9⅛	+⅛
18	10⅞	AL Lab	.12	.8	17	58	15½	15⅜	15⅜	−⅛
4⅛	3⅛	AMCA	.12e	3.2	25	7	3⅞	3¾	3¾	
6⅜	4½	AM Intl				725	5⅜	5¼	5⅜	
23½	20⅝	AM In pf	2	9.0		89	22½	22¼	22¼	
98	40⅞	AMR			10	16048	90⅛	88½	89¼	+1⅛
7½	3⅝	ARX				66	4¼	4⅛	4⅛	−⅛
44⅛	35½	ASA	3a	7.0		135	43	42⅝	42⅞	+¼
22⅜	15¼	AVX	.24	1.2	9	133	20¼	20	20	
66	44⅛	AbtLab	1.40	2.2	18	4396	64	63⅝	64	+⅜
18⅛	13¾	Abitibi g	1			11	15	15	15	−⅛
13	7½	AcmeC	.40	3.6		48	11⅛	11	11⅛	+⅛
9⅛	5⅞	AcmeE	.32	3.4	11	28	9½	9⅜	9⅜	−⅛
34⅞	20¼	Acuson			24	449	34	33⅝	33¾	+⅛
16⅞	14¼	AdaEx	1.82e	11.		294	16⅜	16½	16¾	+¼
12	6½	Adobe				722	u12⅝	12¼	12½	+½
19⅞	16½	Adob pf	1.84	9.6		42	19¼	19	19⅛	+⅛
21⅝	19⅞	Adob pf	2.40	11.		41	21⅛	21	21	−⅛
11⅞	7⅛	AMD				791	8½	8⅜	8½	−⅛
36	29⅜	AMD pf	3	9.6		1	31⅜	31⅛	31⅜	+⅛
10⅛	6⅝	Advest	.12	1.3	16	x327	9	8⅞	9	+⅛
60½	46	AetnLf	2.76	4.7	9	1743	58⅛	57⅛	58⅛	+⅛
14	12⅞	AflPb				292	13½	13⅛	13½	+⅛
23¼	14⅞	Ahmans	.88	4.0	11	1097	22⅝	22⅛	22¼	−⅛
4⅝	2¼	Aileen				449	3	2½	3	+⅜
48⅛	37¼	AirPrd	1.32	2.7	12	2665	48⅝	48	48⅛	+⅛
37⅜	16⅛	AirbFrt	.60	1.6	24	367	37¼	36⅛	37	−⅛
25⅞	13⅛	Airgas			14	47	23⅛	22¼	23⅛	+⅛
[illegible]										

Continued on Page 35

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
10⅛	7⅛	WyleLb	.28	3.2	14	324	8⅝	8½	8⅝	
28	19⅞	Wynns	.80	2.3	12	45	26⅝	26⅛	26⅝	+ ⅛
15½	4½	Wyse				387	7⅛	7	7⅛	
		– X – Y – Z –								
69	51⅞	Xerox	3	4.4	18	1942	67⅝	67⅛	67½	+ ⅛
46	45⅜	Xerox pf				18	44½	44½	44½	– ⅝
44⅛	29⅝	XTRA	.72	2.3	10	18	31⅝	31⅛	31⅝	+ ½
35	24½	XTRA pf1.94		7.5		5	26	26	26	
4⅛	2	Zapata				112	2⅜	2⅝	2⅝	
22⅝	16⅛	ZenithE				3831	16⅝	d15⅞	15⅞	– ⅞
10⅝	8⅞	Zeninc	1.26	14.		54	9⅛	9⅛	9⅛	+ ⅛
2⅜	1⅛	viZenLb				439	1½	1⅜	1⅜	– ⅛
21½	15	ZeroX	.84	4.3	9	30	20⅛	19½	19½	– ⅞
22⅝	14⅞	Zero	.50	2.3	17	551	21⅞	21½	21⅞	+ ⅛
44⅞	21½	Zurmin	.68	1.7	25	495	40⅜	40⅛	40⅝	+ ⅝
12	10	Zweig	1.09e	9.5		142	11⅝	11⅝	11½	
10⅛	8⅛	Zweig n	.86	10.		893	9⅝	9⅝	9⅝	– ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices August 31

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, 4pm prices September 1

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
Willamt	1.45	8 357	u55¼	53¾	55¼	+1¾
WilmTr	1.24	13 670	43	42	42¾	
WiserO	.40	44 71	17	16⅞	17	+ ⅛
Wolohn	.28	9 31	17¾	17¼	17¾	
WrvEx h		2130	9½	9⅛	9⅛	– ⅛
Worthg	.56	15 933	23⅞	22¾	23¾	
Wyman	.80	188 632	19¾	18¼	18¾	+ ¼
– X – Y – Z –						
XL Dta s		18 89	23	22½	23	
XOMA		475	20½	20	20¼	
Xicor		9 291	6⅛	6	6	– ⅛
YelowF	.78	11 347	31⅝	31¼	31½	
ZionUt	1.44	94	30¾	29½	30¾	
Zycad		3503	2⅞ d	2¼	2⅝	– ¼

The Business Column

Worries as Japan's bankers bet on size

Few people in the international finance business can have been cheered by last week's news of the proposed merger between Mitsui Bank and Taiyo Kobe Bank of Japan.

The alliance will produce the second largest bank in the world – which is bad enough in a business already dominated by Japanese institutions. To put it into a western perspective, it is as if Citicorp, the US's largest bank, and Barclays, Britain's largest, decided to merge. The new bank will be ten times bigger in assets than an average-sized European bank such as the TSB or Crédit Commercial de France, and its market capitalisation will be five times that of Germany's largest, Deutsche Bank.

The most depressing point about the merger, though, is not its huge dimensions but the lie it gives to the idea that Japanese banks had ceased to be preoccupied with sheer size.

This idea had been gaining ground in western bankers' minds over the last year or two. The rationale was that the new international capital rules which were introduced this year would force Japanese banks to be much more profit-conscious, and therefore less concerned with piling on assets. The rationale was based on only flimsy evidence, but it was boosted by a sense of wishfulness on the part of western bankers who had been battered by the Japanese banks' ruthless price-cutting.

That rationale may still hold true. But it has clearly not prevented two major Japanese banks from perceiving benefits in sheer size. And if this merger is the precursor to others, as Japanese bankers are themselves predicting, we may merely be witnessing the first of a new generation of behemoth banks.

The creation of a new banking order

It is, of course, open to western banks to view these developments with a cold, detached eye and comfort themselves with the thought that the history of banking mergers is littered with failures. Mergers seldom enhance earning power in banks; indeed it is an axiom that smaller banks are usually more profitable because they can concentrate on lucrative niches. If western bankers hold firm to their professed belief that what matters at the end of the day is not the size of the balance sheet but the returns earned for shareholders they should have nothing to fear.

But will they be able to keep their nerve in the face of this Oriental rush for size? What the Japanese banks are threatening to do is create a wholly new order of magnitude for the world banking industry which western banks will be forced to confront.

How valid will their defence of earnings quality prove to be against competitors which are massing into units many times their size? What will be the nature of competition in a global market dominated by half a dozen Japanese monsters? What point is there, indeed, in even trying to compete on an international scale against institutions whose shareholders seem to be so undemanding?

It is quite easy in this situation to see western banks themselves resorting to sheer size in self-defence. By coincidence, the opportunities may well present themselves in the progress of geographical deregulation in the US (the liberalisation of inter-state banking), and the emergence of a single market in Europe, both of which open up fresh possibilities for bank mergers.

One hopes, of course, that banks find better motives for merger than fear of the Japanese. Aside from the dubious benefits which have already been mentioned, there are public interest issues to do with competition and the prudential risks inherent in over-concentration.

Nothing would please western bankers more than to see Mitsui Taiyo Kobe become a dinosaur rather than a dragon, because this would support their argument that quality prevails over quantity in the end. But the growing lopsidedness of the world banking structure must be a worrying trend: and western banks may, in the end, have little choice but to take countervailing action of their own.

David Lascelles

THE MONDAY INTERVIEW

The quiet pursuit of a moralist's goals

Jimmy Carter, former US president, speaks to **Peter Riddell**

When former US President Jimmy Carter left the White House in January 1981, aged only 56, he says he faced "an unwanted and potentially empty life." But in the subsequent eight and a half years he has remained politically active. Although he has not sought office, he has been involved in international public service.

Last week, in his office at the Carter Presidential Centre, Mr Carter was preparing for talks which he is chairing this Thursday between the Ethiopian Government and the Eritrean People's Liberation Front. The aim is to help to end their 28-year-old civil war. Later this month Mr Carter will travel to Nicaragua for discussions ahead of his role as an independent observer of that country's elections next February.

Mr Carter admits there is no precedent for his activities. They contrast with those of the other three living ex-presidents – Richard Nixon, tarnished by Watergate, dispensing "elder statesman" advice; Gerald Ford, an amicable presence on the lucrative convention and golf circuit; and Ronald Reagan, who has largely disappeared from view apart from a few money-making ventures.

But Mr Carter has always been different – more of a moralist than a conventional politician. Many familiar features have not changed since he left the White House. There is the same precise intelligence, the same commitment and, above all, the same grin. Yet the boyish looks are gone. His face is lined and his hair grey-white. He is more relaxed, more detached and wittier than he often appeared when in office.

Mr Carter has chosen not to pursue commercial activities. Instead, he has made the heart of his life the Carter Centre at Emory University at Atlanta. This is more than the usual museum and library of other ex-presidents. It is a base for study, discussion and his worldwide initiatives on civil conflicts and hunger. His role, he says, is as "a professor, writer and organiser of the Carter Centre's work."

Mr Carter sees the centre as filling a previously empty niche in the resolution of conflicts and civil wars within countries. International bodies like the United Nations are, he points out, "specifically prohibited from becoming involved with revolutionaries opposing a government which is a member of that organisation."

The Carter Centre becomes involved in talking to both sides in such domestic disputes in a way that other organisations and national governments could not. In Ethiopia, for instance, this week's talks have been preceded by several visits by Mr Carter himself to the country.

There are obvious parallels, which Mr Carter accepts, between these Ethiopian talks and the moves leading to the Camp David agreement between Israel and Egypt of 1979. In each case, he says, the discussions occurred because parties were willing to negotiate after long conflicts rather than because of his intervention. Similarly, the outcomes were, and are, "totally unpredictable."

Mr Carter will preside over the talks which are being held with no preconditions. He hopes they set the agenda for subsequent negotiations and lead to certain confidence-building measures such as a ceasefire, as well as the greater involvement of international relief organisations.

PERSONAL FILE

- **1924** Born, Plains, Georgia. Educated in Georgia and US Naval Academy, Annapolis
- **1946-53** Served US Navy
- **1953-77** Peanut farmer and warehouseman
- **1962-66** State senator, Georgia
- **1971-74** Governor, Georgia
- **1977-81** US President
- **1986** Formal opening of Carter Centre

It is appropriate that the meeting is being held in the Carter Centre since it is sited on the hill from which Union General Sherman watched one devastating result of America's own civil conflict – the burning of Atlanta.

Mr Carter has similarly been acting as a conciliator in Central America. As an independent observer of the Nicaraguan elections, he will be repeating the role he adopted last April when confronting General Manuel Noriega's thugs during the Panamanian elections.

He believes the basic defects of the elections in Panama – the absence of freedom to campaign and intimidation of candidates and voters – have been avoided in the Nicaraguan procedures, which were agreed between the government and the opposition groups. But he is keeping a close eye on any loopholes.

Mr Carter denies that he is pursuing an independent foreign policy. "One of the premisses of what we do at the Carter Centre is to be totally non-partisan, and non-political" (he is careful to involve prominent Republicans in his delegations and conferences). "I never profess to speak for my government, but I have always been careful, even when Reagan was in office, to keep the White House and the State Department informed."

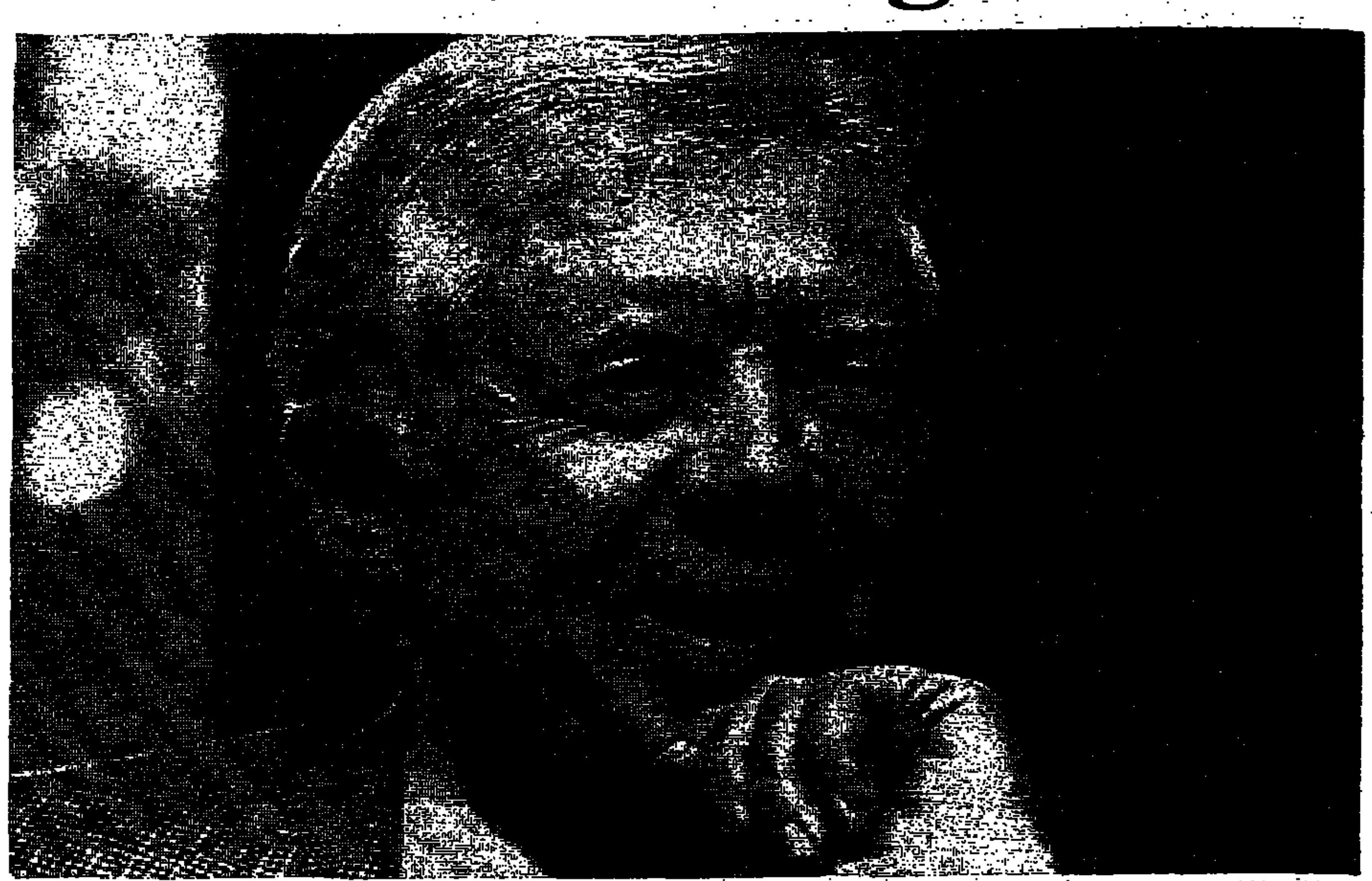
The "even" in relation to former President Reagan is significant since Mr Carter gets on much better with President Bush than his predecessor. He says that there is now "total co-operation and understanding with officials in Washington – a harmonious relationship." Communications with the White House are now "much easier."

Mr Carter has in general avoided domestic political controversy since 1981 – apart from producing a level-headed report last winter on how to tackle the US budget deficit. This was written with Mr Ford, his old opponent and now friend. Mr Carter prefers to pursue his international interests in the third world, peace and human rights, the alleviation of hunger and health – issues which have "long been overlooked in many parts of the industrialised world."

Some of the Carter Centre's domestic operations in, for example, preventive health care have been extended overseas. Mr Carter and his family also remain involved with helping to rebuild inner city houses. He is an experienced carpenter.

Many of Mr Carter's activities are in countries in which, while president, he was at times more popular than he was in the US.

"In the Scandinavian countries, the third world and Latin America, my policies were quite acceptable. Peace, human rights, arms control and environmental quality were very attractive in other parts of the world – in some cases more than in this country."



'What we do at the Carter Centre is totally non-partisan'

Mr Carter believes his reputation is "getting better as times passes. This has been historically the case with Eisenhower, Truman and Nixon. That's kind of an inevitable political science truism." He stresses "the stark contrast between my policies and those of President Reagan – some of which are to my benefit." He believes this contrast is "helpful in modifying public opinion in the US. Recent newspaper columns and several books written by scholars have been more favourable than news reporters at the time."

Any favourable reassessment of Mr Carter's term still has a long way to go given the low standing he had on leaving office. He was widely criticised both in Washington and in west European capitals for inconsistency and ineffectiveness; that view has not yet changed significantly.

Republican politicians even now run against the Carter record – using him as a symbol of past failures – even though he was welcomed back by his own party at last year's Democratic convention in Atlanta. To some extent, however, the more positive view of Mr Carter now expressed in opinion polls and by commentators reflects as much his conduct since leaving the White House as his patchy record as President.

Although he is the only Democrat to be elected president since Lyndon Johnson in 1964, Mr Carter is not pessimistic about his party's prospects. He says the answer is "just get the right candidate. If we have someone like Senator Bill Bradley or Senator Sam Nunn [a fellow Georgian] or others I will not name now, that would be a major step forward.

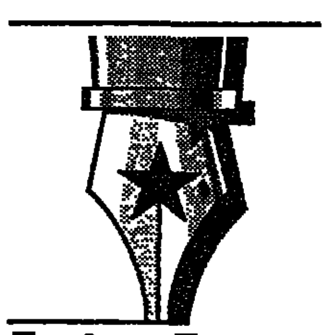
"There needs to be a combination of philosophy – conservative on the budget deficit, on finance, on trade, strong on defence, strong on local government, on the one hand, and quite a progressive attitude on human rights, civil rights, environmental quality, peace – that kind of relationship which I tried to espouse when I was President would be appealing now."

He adds that it "is almost mathematically impossible to be elected president without carrying the South given the way the rest of the nation is divided."

Talking to Mr Carter there is not only the impression of a fundamentally decent man, whatever his faults in executing his aims in office, but also of someone who is trying to prove something. He may no longer be trying to show that American voters were wrong in 1980, when he lost, but rather that what he tried to do in the preceding four years of his presidency was right.

Initially, Mr Carter agreed when asked whether he was still fighting the battles of his presidency. But then he added the qualification that he would not necessarily refer to battles. He preferred to say that he was "still pursuing some of the same goals he pursued as president."

Shedding the ass's skin in Poland



Eastern Europe Notebook

That great operatic parable of class struggle, *The Marriage of Figaro*, has in its final act a song sung by Don Basilio, a music master. For much of the opera, Basilio is seen as a lackey of the Count Almaviva, against whose tyranny the revolt, which is the subject of the opera, is directed. He is a henchman of the Count in the latter's efforts to assert a droit de seigneur over Figaro's bride-to-be, Susanna – even though he has formally renounced this supreme symbol of the lawlessness of aristocratic rule.

Then, in the miraculous fourth act, where power is humbled and a greater law implicitly conjured forth, Basilio is given an aria in which to display his philosophy of life. He tells the story of the ass's skin: an ugly, noisome cloak given to him by Lady Discretion, which allows him to weather storms and to blunt the appetite of wild beasts.

"So fate taught me that
Insults, dangers, shame and death
Can be escaped under an ass's skin"

A small part of the aid now being considered for Poland could be worse spent than on sponsoring a season of the Marriage of Figaro in Warsaw's opera house – or for that matter in Prague (where it played with great success two centuries ago) or East Berlin, or Budapest, or Moscow. Basilio's song would mean much more to audiences there, now, than it possibly can in Paris, London, Milan or New York.

On the day Mr Tadeusz Mazowiecki was confirmed as Prime Minister of Poland, I spoke to Jerzy Urban, chairman of the state committee of radio and television. For much of the 1980s, he was famous as the Government's chief spokesman, and his appearances before the Polish and foreign press corps were set pieces of aggressive verbal ping-pong, with Mr Urban often getting the better of the press because of his brass neck and shameless wit. Just before the elections this June he was given the media job, a reward for nearly a decade of unswerving loyalty to the authorities.

But he is now a man on his way out. Whatever Mr Mazowiecki's government has decided must be left to the Communists, the media will not be part of it. Though the reporting on Polish television and radio is now relatively straight, and in some cases quite critical of the Government, and though Solidarity has a whole 45 minutes a week to produce its own programme, there are recent and sharp memories of the media's role during martial law which must be assuaged. A Solidarity-led government would be a nonsense if it were not to tackle that. So Mr Urban's discourse was a valedictory of his immediate past. But it was full of interest, as is he.

He spent the early part of his professional life in the 1950s working for a journal whose dissidence was only just permitted. He then shifted to Polytika, the weekly started to provide a safety valve for critical ideas and commentary – though, he admits, this was a criticism which could never question the Socialist system or the alliance with the Soviet Union. Many thought of him as the best writer on the paper – original, caustic and funny.

To be a journalist of that kind in post-war Poland was to wear an ass's skin but to be able to claim it did good for others, not merely for oneself. Since these journals were sanctioned and nothing was printed without the censor's stamp they were by definition safe. Yet they also pushed at the limits of the permissible, presented arguments which sometimes won by their own force, and preserved ventilation where otherwise there would have been an airless vault.

Then, with his former editor Mieczyslaw Rakowski, he joined the regime. He thus forswore the limited but surely comforting irresponsibility and freedom of a journalist for real power, but one closely constrained and intensely destructive of ideals and of the truth.

Did he regret that period? Not at all; though he had had to accept the bridle of loyalty, he had joined the Jaruzelski regime because he saw it as a reforming one. What would he do now? Return to the pen; Poland would offer plenty of opportunities for sharpening it.

Newspapers would now, he said, be commercial: they would sink or swim by sales, publishing "sex and tips for housewives." Old forces once held down – nationalism, racism – would reassert themselves. A sense of purpose (the Communist party's sense of purpose) would be lost. There were, after all, no such things as neutral media, as the Americans claimed. Yes, there would be much to offer a critic of the opposition (for such he would be) in the new Poland – for "things do not arrange themselves as in fairy stories, to end happily ever after."

For the very many, like Mr Urban, who have lived beneath the ass's skin these are difficult, if not for the present dangerous, times. Much too late to slough it off and pretend it was never worn: all that is left in honesty is to say, with Don Basilio, yes, I wore it: so did very many of us, perhaps at some time and in some fashion all of us who sought to be active in public life. How many Figaros were there, who challenged absolute power?

Well, there was one: Lech Walesa, who sensed the inner emptiness of the absolute power and who rallied against it. For the realists and practical reformers who had lived under the skin, his ultimate success (fragile though it still is) threatens to render lies meaningless in retrospect.

Only if they can show that we all, or nearly all, crawl under the skin when times get rough, can at least a certain self respect (if not an ideology) survive. And indeed, there will be some mileage in such a project in the new Poland, the new Hungary, the new Soviet Union or the old Anywhere for as far ahead as anyone can see.

John Lloyd